WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA

ACHIEVEMENTS IN WATER INDEPENDENCE

Comprehensive
Annual Financial Report
Fiscal Year Ending
June 30, 2016

WRD
WATER REPLENISHMENT DISTRICT
OF SOUTHERN CALIFORNIA

THE WATER REPLENISHMENT DISTRICT
BOARD OF DIRECTORS

Comprehensive Annual Financial Report

Fiscal Year Ended

June 30, 2016 and 2015

WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA
4040 Paramount Boulevard
Lakewood, California 90712

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Our Mission Statement

"To provide, protect and preserve high quality groundwater through innovative, cost-effective and environmentally sensitive basin management practices for the benefit of residents and businesses of the Central and West Coast Basins."

Water Replenishment District of Southern California
Board of Directors as of June 30, 2016

Name	Division	Title	Elected/ Appointed	Current Term
Willard H. Murray, Jr.	1	President	Elected	01/15 – 01/19
Robert Katherman	2	Vice President	Elected	01/15 – 01/19
John D.S. Allen	3	Secretary	Elected	01/13 – 01/17
Albert Robles	5	Treasurer	Elected	01/13 - 01/17
Sergio Calderon	4	Director	Elected	01/15 - 01/19

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Robb Whitaker, General Manager
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	PAGE
INTRODUCTORY SECTION (Unaudited)	
Letter of Transmittal	i
Organizational Chart	ix
Map of the District	x
Government Finance Officers Association – Certificate of Achievement for Excellence in Financial Reporting	xi
FINANCIAL SECTION	
Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited)	3
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	13
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)	
Schedule of Funding Progress – OPEB	48
Schedule of Proportionate Share of the Net Pension Liability – CalPERS	49
Schedule of Proportionate Share of the Net Pension Liability – PARS	50
Schedule of Contributions – CalPERS	51
Schedule of Contributions – PARS	52
STATISTICAL SECTION (Unaudited)	
Statistical Section – Table of Contents	53
Changes in Net Position by Component – Last Ten Fiscal Years	54
Operating Revenues by Source – Last Ten Fiscal Years	56
Operating Expenses by Activity – Last Ten Fiscal Years	57
Revenue Base – Last Ten Fiscal Years	58
Revenue Rates – Last Ten Fiscal Years	59
Customers by Type – Last Ten Fiscal Years	60
Principal Customers – Current Fiscal Year and Ten Years Ago	61
Ratio of Outstanding Debt – Last Ten Fiscal Years	62
Debt Coverage – Last Ten Fiscal Years	63
Demographics and Economic Statistics – County of Los Angeles – Last Ten Fiscal Years	64
Largest Employers – County of Los Angeles	65
Operating and Capacity Indicators – Last Ten Fiscal Years	66
REPORT ON INTERNAL CONTROLS AND COMPLIANCE	
Report of Independent Auditors on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	67

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Introductory Section

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December 21, 2016

The Honorable Board of Directors of the
Water Replenishment District of Southern California

State law requires that every general-purpose government agency publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2016.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. Due to costs, internal controls should not exceed anticipated benefits; the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Vasquez & Company LLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on the Water Replenishment District of Southern California's financial statements for the year ended June 30, 2016. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements and should be read in conjunction with this letter of transmittal.

The District has one blended component unit with a June 30 year-end. Accordingly, the Southern California Water Replenishment Financing Corporation is presented as a blended component unit of the District.

Profile of the District

The District is a special water district that was established in 1959 by popular vote to counteract the effects of over pumping of groundwater from two major groundwater basins in Los Angeles County. It is the only replenishment district in California operating under the provisions of the California Water Code, Section 60000 et seq., which specifically governs water replenishment districts.

The District manages the Central and West Coast groundwater basin (collectively, the "Basins") which provide groundwater for approximately four million residents in 43 cities of southern Los Angeles County (County). The District was formed in response to a history of over pumping of the Basins which caused wells to go dry and seawater to intrude into the potable water aquifers. The District serves as the groundwater manager for the Basins, in accordance with the adjudications of the Basins. The District protects the Basins by replenishing the groundwater, deterring sea water intrusion and removing contaminants from the groundwater.

The District is bound by the Baldwin, Whittier, and Merced Hills to the north, the Orange County line to the east, and the Pacific Ocean to the south and west. It lies entirely within Los Angeles County and serves 43 cities, including Los Angeles, Long Beach, Downey, and Torrance. The approximately 420 square mile service area uses about 250,000 acre-feet of groundwater per year.

The District's stated mission is "to provide, protect and preserve high quality groundwater through innovative, cost-effective and environmentally sensitive water basin management practices for the benefit of residents and businesses of the Central and West Coast Basins." Although the District does not directly serve customers, it ensures the health of the groundwater basins so groundwater supplies are available to those with water rights to those basins, such as the cities that supply water to their residents. According to District estimates, in the past nearly 40 percent of the water consumed by the area served by the District comes from groundwater sources. Due to the drought and conservation, the percentage is now closer to 50 percent. The remaining amount comes from water imported from the Colorado River and Northern California.

The District was originally established to oversee the replenishment of groundwater levels in the West Coast and Central groundwater basins of Los Angeles County. The need for an entity to perform this function had become clear by the 1950s. The increasing population of the Los Angeles area during the early part of this century had overwhelmed the area's limited sources of surface water, so communities, private water companies, and businesses began pumping water out of the groundwater basins. Since the natural inflow to the groundwater basins relies primarily on rainfall that averages only 14 inches per year, it was not long before the pumping outstripped the basins' ability to recharge themselves through natural means. As the groundwater levels continued to go down, some wells went dry and saltwater intruded into the basins' coastal areas, causing wells to be abandoned.

The West Basin Water Association was formed in 1947, and the Central Basin Water Association was formed in 1952. These associations developed a plan to provide supplemental water to their members, limit groundwater extraction from the basins, and create a means to provide groundwater pumping rights to users who lacked access to other supplemental water supplies. At about the same time, the entities went to court seeking specific assignments for groundwater rights. In 1956 and 1961, the court awarded varying amounts of groundwater rights to a number of entities. During fiscal year 1997 – 98, 150 parties to these judgments held a total of 217,367 acre-feet of water rights in the Central Basin, and 68 parties held a total of 64,468 acre-feet of water rights in the West Coast Basin. Since water rights are property rights, they can be bought and sold.

By law, the District has broad authority to carry out its responsibilities, which include the purchase of water to replenish the basins, administering clean water programs and investing in projects intended to improve the reliable supply of clean water at a reasonable cost. The District annually purchases an average of 71,000 acre-feet of water to be added to spreading grounds, where it gradually percolates into the underlying aquifers. The District also purchases an average of 27,000 acre-feet per year of water to be injected into seawater barrier wells along the coastline. Water injected into these barrier wells forms a dam of freshwater that keeps seawater from flowing into the groundwater aquifers in areas where groundwater levels have dropped below sea level. Los Angeles County operates the spreading grounds and barrier wells, using the water the District provides.

In addition, the District operates a number of clean water programs under the authority of 1991 legislation that broadened its mission to include the detection, prevention, and removal of contaminants in the groundwater. In response to this legislation, the District has established programs to monitor water quality, remove containments, and mitigate saltwater intrusion.

Local Economy

The District office is located in Los Angeles County, with over 10 million residents in 88 cities spread across 4,100 square miles; Los Angeles County's population exceeds that of 43 states. If it were a country, it would be the twentieth largest economy in the world. In addition to its signature industries—entertainment, tourism and fashion—its enormous and diversified economy is home to the largest port complex in the Western Hemisphere and the largest number of manufacturing jobs of any county in the country. Other major industries include health care, education and knowledge creation and business services.

The county added 94,700 jobs in 2015, equivalent to a 2.2% annual increase. A majority of the county's major industries added jobs last year, as broad-based growth pushed wage and salaried jobs to a record high. Los Angeles County should continue to add jobs this year. Along with job growth, the unemployment rate fell to 6.9%, the lowest rate of the post-recession period. The unemployment rate should further improve.

Population growth is expected to slow slightly this year and next, with the rate of growth at approximately 0.6% this year and 0.4% in 2017. Even at such low growth rates, the county will increase by over 100,000 residents during that time period. Most of the recent population growth in Los Angeles County has been due to natural increase (births outnumbering deaths), while net migration was slightly negative again last year. The county's high cost of living and lack of affordable housing units for low and middle-income households are contributing to the slowdown in population growth.

Like the nation and state, Los Angeles County experienced broad-based job gains in 2015, adding approximately 95,000 jobs last year. Job gains were seen in most of the county's major industries, with records reached in seven (out of 17) and two more poised to surpass their pre-recession peaks in 2016. The largest job gains occurred in health care and social assistance (21,800 jobs), followed by leisure and hospitality (19,600 jobs) and government (10,000 jobs). The fastest growing sectors in percentage terms were construction (5.9%), leisure and hospitality (4.2%), wholesale trade (3.5%), and health care and social assistance (also 3.5%). Private sector job losses occurred in manufacturing, information, finance and insurance, and the natural resources sector.

As America's gateway to Asia, international trade plays an important role in the Los Angeles economy. The twin ports rebounded after the labor negotiations early in the year to post their third-best year in 2015, with throughput of 15.4 million containers. Despite this, low inflationary pressure combined with a strong dollar brought the value of two-way trade through the Los Angeles Customs District down to $393.4 billion from the record-setting volume of $416.6 billion in 2014.

In terms of employment, the professional services super-sector is the second largest in Los Angeles County, with over 620,000 workers in 2015 (surpassed only by health care and education). There are three major industries in this group: professional, scientific and technical services; management of enterprises; and administrative, support and waste services. All saw solid gains in 2015. Professional, scientific and technical services was the largest of the three with 288,700 jobs in 2015. The industry, which includes legal, accounting, architecture, computer systems design, consulting, research and advertising, added 5,800 jobs, equivalent to a 2.0% growth rate. Finally, the administrative, support and waste services sector added 4,900 jobs (1.8%) for a total of 271,900. All three components of professional services and technology are expected to see additional job gains in 2016 and 2017.

Los Angeles County has seen steady improvement over the past four years, both in terms of job gains and unemployment rate declines. This improvement is expected to continue in 2016 and 2017, although at a slower pace. With the economy back at full employment levels, wage gains are expected over the next year across many occupations. Households could experience significant gains in purchasing power this year as wage gains spread out more broadly than in recent years.

California water supplies are much better off than they were a year ago. The 2015/16 El Niño did produce additional rain and snow, however it was much farther north than expected. The additional rain in northern California has led to a healthy replenishment of the state's northern reservoirs including Shasta, Oroville and Folsom. Toward Los Angeles and San Diego, the winter's moisture has been much more disappointing. However, with the runoff from the storms in northern California boosting the reservoir levels, the Department of Water Resources (DWR) increased its water delivery estimate for most recipients to 60 percent of requests for the calendar year. DWR's initial State Water Project allocation, announced in December, was 10 percent of requests.

On the water conservation side of the equation, the State Water Resources Control Board recently announced that Californians have reduced residential water use by 28 percent in May 2016, compared to the same month in 2013. Cumulatively, local water suppliers have saved 1.6 million acre-feet in the 12 months since mandatory conservation goals began. Starting in June 2016, the State Water Resources Control Board recently updated emergency water conservation regulations to provide urban water agencies the ability to set their own conservation standards based on a "stress test" of supply reliability. Water suppliers must demonstrate that they have sufficient supplies to withstand three years of continuous drought or take additional measures that include mandatory conservation targets. The regulation is in effect through January 2017.

The Water Replenishment District of Southern California has embraced water conservation and the use of recycled water for many years. Through coordination and planning with other local and regional water suppliers, the District continues to engage in developing long-term solutions to the various water supply challenges. These efforts are evidenced in the District's participation in regional conjunctive use programs as well as local groundwater storage and recovery projects. It is through participation in these and other programs, such as the District's Water Independence Now (WIN) program, that will enable the District to continue to meet its long-term water supply needs.

The WIN program is specifically designed to make use of local water supplies to become completely independent of imported water from the Colorado River and the California State Water Project. Prior to 1961/62, the West and Central Groundwater Basins received about 36% of the replenishment water from storm water and 64% from imported water. Today, the demand for imported water has dropped dramatically due to the many projects and cooperative interagency programs WRD has helped develop. The increase in replenishment due to natural recharge is a direct result of storm water capture projects which increases the ability to benefit from local storm events. The WIN program will completely eliminate the need for imported water by replacing the current imported water needs with recycled water. This will be accomplished through completion of the Groundwater Reliability Improvement Program (GRIP) and the use of 100% recycled water at the West Coast and Dominguez Gap Seawater Intrusion Barrier Projects.

Source of economic data: Los Angeles County Profile; Los Angeles County Economic Development Corporation.

Relevant Financial Policies

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Investment Policy

The Board of Directors annually adopts an investment policy that conforms to California State law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The Investment Policy's objectives are safety, liquidity, and yield. District funds are normally invested in the State Treasurer's Local Agency Investment Fund, Certificates of Deposit, Government Agency Obligations or other specifically authorized investments.

Replenishment Assessment

Following twelve public budget workshops, the WRD Board of Directors voted to increase the 2016-2017 Replenishment Assessment to $297.00 per acre-foot. When compared to the cost of imported water of about $1,032 per acre-foot, groundwater represents a substantial savings. We are as proud of the very open and collaborative process we used to arrive at the result as we are of the result itself. Despite rising costs, especially for necessary legal services, we managed to stay the course through general belt-tightening and a conscious decision to reduce purchases for increasingly expensive imported water in favor of more cost-effective local supply.

Fitch Ratings and Standard & Poor's affirms WRD's AA+ Debt Rating

Reflecting confidence in WRD's financial stability and management, both of the major rating agencies rated the certificates AA+, which is at or near the top rating for water agencies in the state.

District Achievements

This was an extraordinarily productive year for WRD. Projects completed or started will produce or enable the delivery of nearly 40,000 acre-feet of local water. The expanded Vander Lans Advanced Water Treatment Facility (AWTF) became fully operational. We broke ground on the expansion of the Robert W. Goldsworthy Desalter. The turnout structures connecting our major source of recycled water to our major spreading grounds was completed. And we broke ground on the crown jewel of our Water Independence Now (WIN) initiative --- the 10,000 acre-foot capacity GRIP AWTF.

Five-Year Strategic Action Plan

During an all-day workshop to assess WRD priorities, the Board refined its vision and strategic direction for the next five years. The results of that robust discussion were reflected in a Strategic Action Plan adopted by the Board. The five main goals of the District identified in the Plan:

- Continue to implement Water Independence Now (WIN)
- Provide high quality groundwater
- Promote organizational excellence
- Advance groundwater awareness
- Foster environmental stewardship and sustainability

At WRD, the Strategic Action Plan is not a document we adopt and put on the shelf for five years. Its implementation governs virtually everything we do. Executing the WIN initiative is a relentless pursuit, reflected by our brick-and-mortar projects. High quality groundwater is the objective and result of our Safe Drinking Water program under which we adopted three additional projects this year. We enhanced organizational excellence this year by awarding contracts to help us implement an Asset Management Plan and Supervisory Control and Data Acquisition Plan, both indispensable elements of sophisticated management for the modern organization. Our education and outreach efforts, highlighted by our much-emulated ECO Gardener program, cover every corner of the District. And our implementation of local supply projects greatly reduces the carbon footprint for the region.

Five-Year Capital Improvement Program

The Board adopted an updated Five-Year Capital Improvement Program (CIP), providing a road map that will take us through 2019/20. The CIP summarizes ongoing and planned capital projects and equipment purchases and links those projects and purchases to WRD's Strategic Action Plan and annual budget. The CIP includes a total of $146 million in capital projects and reflects more than $12 million in grant funding WRD has received.

Grant Funding
Grant funding helps reduce the Replenishment Assessment the District would otherwise have to adopt. Just this year, we received three grants totaling over $9 million. $9 million is equivalent to roughly $34 for one year on the Replenishment Assessment. The grants included just over $5 million for the GRIP Recycled Water Turnout Structures and just over $4 million for the Goldsworthy Desalter expansion. Both were from the Drought Solicitation Round of Proposition 84 Implementation Grants. WRD also received an $85,250 grant from the Metropolitan Water District for our Tracer Alternative Research Project.

Pending is a grant of up to $15 million from the State Water Resources Control Board that will go toward the cost of the GRIP AWTF.

Leo J. Vander Lans AWTF
Full operation commenced at the expanded Leo J. Vander Lans Advanced Water Treatment Facility (AWTF). The expansion project increased the capacity at the facility from 3,300 acre-feet per year to 8,000 acre-feet per year, eliminating altogether the need for imported water at the Alamitos Barrier.

Robert W. Goldsworthy Desalter
The District broke ground on a project to more than double the capacity of the Robert W. Goldsworthy Desalter. This project will treat an additional 2,400 acre-feet of brackish groundwater to provide a total of 4,800 acre-feet of potable water to the City of Torrance each year.

Groundwater Reliability Improvement Program
The Groundwater Reliability Improvement Program (GRIP) is the cornerstone of WRD's WIN initiative. GRIP will allow WRD to become 100% independent of imported water for groundwater replenishment. Once completed in 2018, GRIP will enable WRD to offset the current use of imported water with a combined total of 21,000 acre-feet per year of both tertiary treated water (11,000 acre-feet) and advanced treated water (10,000 acre-feet) for groundwater replenishment in the Central Basin via the Montebello Forebay. GRIP has two main components:

<u>Turnout Structures</u>
WRD completed work on two new turnout structures to connect the Los Angeles County Sanitation Districts' recycled water delivery pipeline to the Montebello Forebay Spreading Grounds and the San Gabriel River. The structures are key elements of GRIP and starting this summer will enable delivery to the spreading grounds of an additional 11,000 acre-feet of recycled water per year on average.

<u>Advanced Water Treatment Facility</u>
The Advanced Water Treatment Facility (AWTF) is the centerpiece of GRIP and a final piece of the first phase of the WIN initiative. Major steps were taken this year to make this long-planned project a reality. Specifically, the WRD Board:

- Certified the Final Environmental Impact Report for the project
- Adopted a design/build procurement process for project delivery
- With active community participation, conducted a robust and highly competitive design competition for the treatment building and related facilities

- Selected a design concept and an architectural and design team to work with the engineering and construction team to implement final design
- Hired an Owner's Engineer/Agent to provide professional program management and technical advisory services relating to the GRIP AWTF for the duration of advanced planning, design, entitlement, permitting and commissioning.
- Executed a Project Labor Agreement for the project with the Los Angeles/Orange County Construction Trades Council
- Selected an engineering, construction and operations and maintenance team to build the project and operate the treatment facility once complete

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the twelfth consecutive year that the District submitted its CAFR for this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District has also been presented with the following awards as part of its ongoing effort to provide, protect and preserve high-quality groundwater within the Central and West Coast Groundwater Basins.

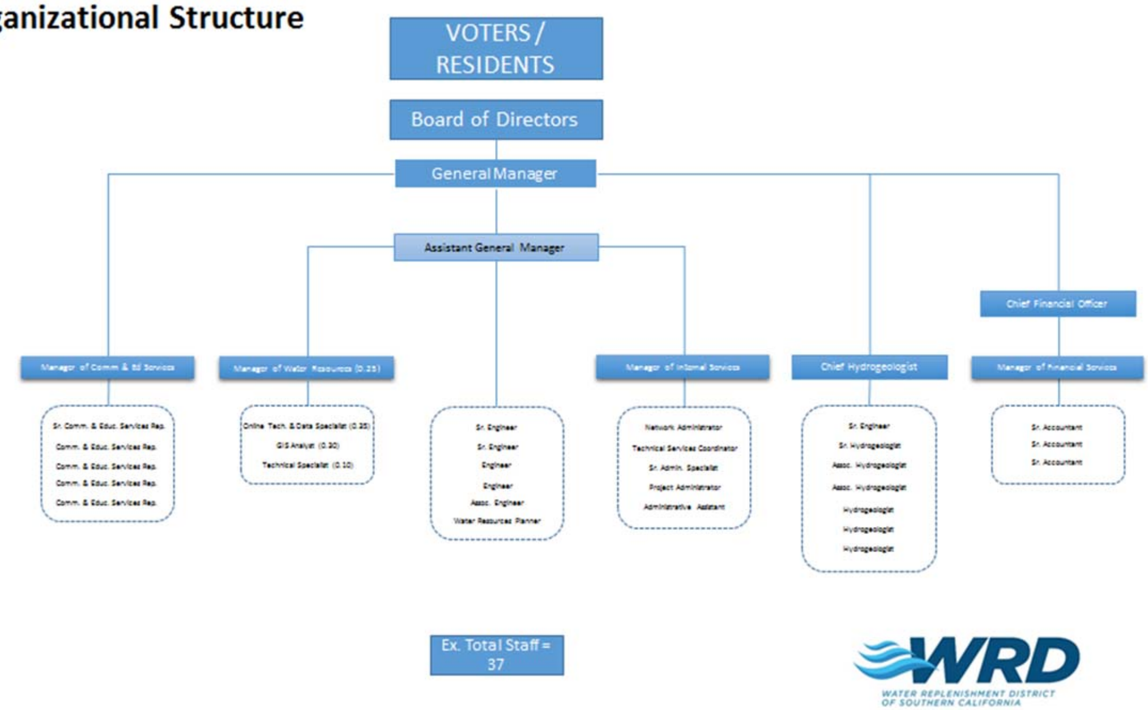
- Government Finance Officers Association Distinguished Budget Presentation Award
- California Society of Municipal Finance Officers Association Award of Excellence in Budgeting

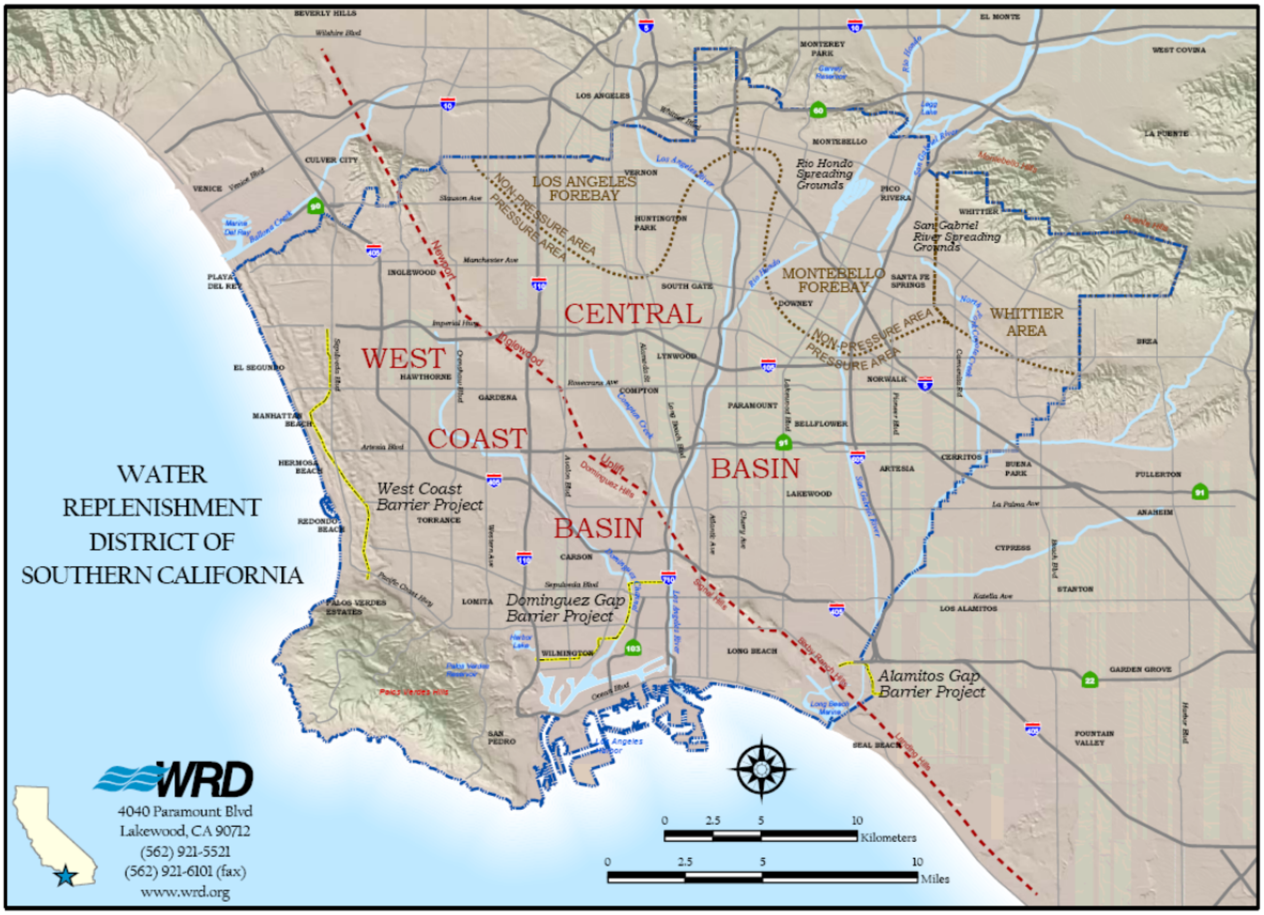
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Water Replenishment District of Southern California's fiscal policies.

Respectfully submitted,

Scott M. Ota, CPA, CFF, CIRA, CGMA
Chief Financial Officer
Water Replenishment District of Southern California

Organizational Structure




WATER
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DISTRICT OF
SOUTHERN CALIFORNIA
WEST
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FOREBAY
MONTEBELLO
FOREBAY
WHITTIER
AREA
NON-PRESSURE AREA
PRESSURE AREA
Rio Hondo
Spreading
Grounds
San Gabriel
River Spreading
Grounds
West Coast
Barrier Project
Dominguez Gap
Barrier Project
Alamitos Gap
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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Water Replenishment District of Southern California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Jeffrey R. Emer

Executive Director/CEO

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Financial Section

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Report of Independent Auditors

The Honorable Members of the Board
Water Replenishment District of Southern California

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Replenishment District of Southern California (the District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's Minimum Audit Requirements for California Special Districts and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2016 and 2015, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, and the required supplementary information on page 48 through 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vasquez & Company LLP

Los Angeles, California
December 21, 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Water Replenishment District of Southern California (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased by 9.6% or $7,705,157 from $80,017,544 in fiscal year 2015 to $87,722,701 in fiscal year 2016 and increased 9.2% or $6,734,200 from $73,283,344 in fiscal year 2014 to $80,017,544 in fiscal year 2015.

- The District's total operating revenues decreased by (25.3%) or ($20,301,267) in fiscal year 2016 primarily caused by deferred revenue being recognized as a part of the District's purchase of imported spreading water in 2015.

- The District's total expenses also decreased by 23.9% or $18,223,623 and increased 53.1% or $26,408,449 in fiscal years 2016 and 2015, respectively. This was primarily due to the following:
  - ✓ The West Coast Seawater Intrusion Barrier Project received a high amount of recycled water than initially expected, saving about $3.3 million over the prior year;
  - ✓ Due to the expansion of the Leo J. Vander Lans Advanced Water Treatment Facility, less imported water was needed at the Alamitos Seawater Barrier, cutting costs by about $2.8 million;
  - ✓ The District was able to provide In-Lieu replenishment water purchases for $6.2 million in fiscal year 2015 that was unavailable in 2016 causing a decrease in expenses;
  - ✓ In fiscal year ended June 30, 2015, the District had significant litigation expenses ($10.3 million) related to the claim that the District failed to comply with the requirements of Proposition 218. The parties resolved the litigation through a negotiated settlement in 2015. The District did not incur any litigation expenses in 2016.

Required Financial Statements

This annual report includes the basic financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the District.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate fiscal stability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, noncapital financing, and capital and related financing activities.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 47.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. One can think of the District's net position - the difference between assets and liabilities - as a way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed government legislation, such as changes in Federal and State water quality standards.

Statement of Net Position

Condensed Statement of Net Position

	June 30, 2016	June 30, 2015	Change Amount	Change %	June 30, 2014	Change Amount	Change %
Current assets	$ 68,486,791	$ 63,977,006	$ 4,509,785	7.0	$ 78,005,581	$ (14,028,575)	-18.0
Restricted assets	75,168,581	28,444,554	46,724,027	164.3	50,275,005	(21,830,451)	-43.4
Other noncurrent assets	925,341	1,233,800	(308,459)	-25.0	1,731,149	(497,349)	-28.7
Capital assets, net	141,795,238	116,886,598	24,908,640	21.3	96,671,031	20,215,567	20.9
Deferred inflows of resources	14,780,986	1,062,375	13,718,611	1,291.3	-	1,062,375	100.0
Total assets	301,156,937	211,604,333	89,552,604	42.3	226,682,766	(15,078,433)	-6.7
Current liabilities	22,157,323	17,195,906	4,961,417	28.9	19,867,379	(2,671,473)	-13.4
Noncurrent liabilities	173,524,174	99,388,078	74,136,096	74.6	98,577,563	810,515	0.8
Deferred outflows of resources	17,752,739	15,002,805	2,749,934	18.3	34,954,480	(19,951,675)	-57.1
Total liabilities	213,434,236	131,586,789	81,847,447	62.2	153,399,422	(21,812,633)	-14.2
Net position							
Net investment in capital assets	45,393,945	47,030,300	(1,636,355)	-3.5	46,797,968	232,332	0.5
Unrestricted	42,328,756	32,987,244	9,341,512	28.3	26,485,376	6,501,868	24.5
Total net position	$ 87,722,701	$ 80,017,544	$ 7,705,157	9.6	$ 73,283,344	$ 6,734,200	9.2

As noted earlier, over time, changes in net position may serve as a useful indicator of a government's financial condition. In the case of the District, assets of the District exceeded liabilities by $87,722,701 and $80,017,544 as of June 30, 2016 and 2015, respectively.

Total assets increased $89.5 million or 42.3% in the current year primarily due to a $46.7 million increase in restricted assets, $24.9 million increase in capital assets, and a $13.8 million increase in deferred inflows of resources.

Total liabilities increased $81.9 million or 62% in the current year primarily due to a $4.9 million increase in current liabilities and a $74.1 million increase in noncurrent liabilities.

In fiscal year 2016, the District issued $148.3 million new 2015 Replenishment Assessment Revenue Bonds which provided $69,500,000 of new restricted cash for capital improvement projects and defeased the District's 2004, 2008 and 2011 Certificates of Participation. With the new money, the District started the Groundwater Reliability Improvement Program's (GRIP) Advanced Water Treatment Facility, a $100 million project and the cornerstone to the District's effort to become independent of expensive and unreliable imported water. The issuance of the 2015 series debt also increased the District's noncurrent liabilities by $73,489,022. The increase of $24,908,640 in capital assets relates to additional assets for the Leo J. Vander Lans Advanced Water Treatment Facility.

In fiscal year 2015, there was a decrease in restricted assets of $21,830,451 and a corresponding increase in the capital assets account of $20,215,567 due to the completion of the Leo J. Vander Lans Advanced Water Treatment Facility Expansion Project and capital expenses related to the Groundwater Reliability Improvement Program (GRIP). The decrease in current assets of $14,028,575 is tied to an increase in operating expenses, primarily related to litigation expenses. There was also a decrease in deferred inflows of resources due to the availability and purchase of imported spreading water in fiscal 2015.

At the end of fiscal years 2016 and 2015, the District shows a positive balance in unrestricted net position of $42,328,756 and $32,987,244, respectively, which will primarily be used for the future purchase of replenishment water.

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statement of Net Position

	June 30,		Change		June 30,	Change	
	2016	2015	Amount	%	2014	Amount	%
Current assets	$ 68,486,791	$ 63,977,006	$ 4,509,785	7.0	$ 78,005,581	$ (14,028,575)	-18.0
Restricted assets	75,168,581	28,444,554	46,724,027	164.3	50,275,005	(21,830,451)	-43.4
Other noncurrent assets	925,341	1,233,800	(308,459)	-25.0	1,731,149	(497,349)	-28.7
Capital assets, net	141,795,238	116,886,598	24,908,640	21.3	96,671,031	20,215,567	20.9
Deferred inflows of resources	14,780,986	1,062,375	13,718,611	-	-	1,062,375	-
Total assets	301,156,937	211,604,333	89,552,604	42.3	226,682,766	(15,078,433)	-6.7
Current liabilities	22,157,323	17,195,906	4,961,417	28.9	19,867,379	(2,671,473)	-13.4
Noncurrent liabilities	173,524,174	99,388,078	74,136,096	74.6	98,577,563	810,515	0.8
Deferred outflows of resources	17,752,739	15,002,805	2,749,934	18.3	34,954,480	(19,951,675)	-57.1
Total liabilities	213,434,236	131,586,789	81,847,447	62.2	153,399,422	(21,812,633)	-14.2
Net position							
Net investment in capital assets	45,393,945	47,030,300	(1,636,355)	-3.5	46,797,968	232,332	0.5
Unrestricted	42,328,756	32,987,244	9,341,512	28.3	26,485,376	6,501,868	24.5
Total net position	$ 87,722,701	$ 80,017,544	$ 7,705,157	9.6	$ 73,283,344	$ 6,734,200	9.2

The Statement of Revenues, Expenses and Changes in Net Position shows how the District's net position changed during the fiscal year. The net position increased by $7,705,157 and $9,948,891 during the fiscal years ended June, 30, 2016 and 2015, respectively. In fiscal year 2016, the increase in net position is due to total revenues of $65,193,367 exceeding total expenses of $57,939,088 with capital contributions of $450,878. In fiscal year 2015, the increase in net position is due to total revenues of $85,001,888 exceeding total expenses of $76,162,711 with an additional $1,109,714 in capital contributions.

A closer examination of the sources of changes in net position reveals that:

In fiscal year 2016, total revenue decreased ($19,808,521) and total expenses decreased ($18,223,623) for a net decrease of ($1,584,898). The District also saw a decrease in capital contributions of ($658,836) for a change in net position for 2016 of ($2,243,734).

Total revenue increased $23,780,221 in 2015 with total expenses increasing $26,408,449 for a net decrease of ($2,628,228). The District also saw a decrease in capital contributions of $5,097,512. Coupled with the increase due to the prior period adjustment in 2014 due to the implementation of GASB Statement No. 6 of $3,214,691, the net increase at the end of fiscal year 2015 is $9,948,891.

Operating Revenues

	2016	2015	Change	2014	Change
Operating Revenues:					
Water replenishment assessment	$ 58,128,626	$ 79,085,428	$ (20,956,802)	$ 58,665,579	$ 20,419,849
Desalter assessments	619,806	517,963	101,843	840,559	(322,596)
Water treatment subsidies	412,706	182,649	230,057	377,650	(195,001)
Other operating income	691,718	368,083	323,635	502,917	(134,834)
Total operating revenues	$ 59,852,856	$ 80,154,123	$ (20,301,267)	$ 60,386,705	$ 19,767,418

The rise in revenue in 2015 is primarily due to the recognition of deferred inflows of resources matched against the purchase of imported spreading water. In 2016, the District did not recognize as much deferred revenue as in the prior year; water replenishment assessment revenues returned to pre-2015 levels.

In fiscal year 2015, the Goldsworthy Desalter was not operating at full capacity and therefore, there is a decrease in Desalter assessments and water treatment subsidies. Also contributing to the decrease in water treatment subsidies was the temporary shutdown of the Leo J. Vander Lans Advanced Water Treatment Facility (AWTF) due to the expansion project. In contrast, in 2016, the Goldsworthy Desalter and the Leo J. Vander Lans AWTF were on-line more than in 2015 causing a slight increase in these revenue streams.

Operating Expenses - Water Supply Management Expenses

	2016	2015	Change	2014	Change
Water supply management:					
Water purchases - injecting	$ 17,798,133	$ 23,385,697	$ (5,587,564)	$ 24,496,761	$ (1,111,064)
Water purchases - spreading	16,290,901	14,325,715	1,965,186	1,780,436	12,545,279
Connection fees	2,824,490	2,586,820	237,670	1,285,551	1,301,269
Total water supply management expenses	$ 36,913,524	$ 40,298,232	$ (3,384,708)	$ 27,562,748	$ 12,735,484

Water purchases make up the majority of the District's total operating expenses which saw a decrease of ($3,384,708) over the prior fiscal year. This was primarily due to a significant decrease in the purchase of imported injection water at the West Coast Seawater Intrusion Barrier because more recycled water was delivered than originally anticipated resulting in a net decrease in injection water expense of ($2.3) million. Add this to a net decrease of ($2.8) million at the Alamitos Seawater Barrier and this accounts for most of the ($5.6) million decrease in purchase of injection water. Additionally, the District was able to purchase more recycled spreading water to replenish the groundwater basins increasing the expense by $1,965,186 over that of 2015.

Capital Assets Administration

At June 30, 2016 and 2015, the District's investment in capital assets amounted to $141,795,238 and $116,886,598 (net of accumulated depreciation), respectively. This investment in capital assets includes land, utility plant, monitoring and injection equipment, service connections, office furniture and equipment, and construction-in-progress. Major capital asset additions during fiscal year 2016 and 2015 include expenses related to the Leo J. Vander Lans Advanced Water Treatment Facility Expansion Project, Goldsworthy Desalter, the Regional Groundwater Monitoring Program and the Groundwater Reliability Improvement Program (GRIP).

The capital assets of the District are summarized below and more fully analyzed in Note 4 to the basic financial statements.

	Balance July 1, 2015	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2016
Non-depreciable assets	$ 72,901,147	$ 28,887,664	$ (40,283,822)	$ 61,504,989
Depreciable assets	72,018,807	40,308,532	(64,834)	112,262,505
Accumulated depreciation	(28,033,356)	(4,003,734)	64,834	(31,972,256)
Capital assets, net	$ 116,886,598	$ 65,192,462	$ (40,283,822)	$ 141,795,238

	Balance July 1, 2014	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2015
Non-depreciable assets	$ 53,142,737	$ 19,758,410	$ -	$ 72,901,147
Depreciable assets	68,932,206	3,086,601	-	72,018,807
Accumulated depreciation	(25,403,912)	(2,629,444)	-	(28,033,356)
Capital assets, net	$ 96,671,031	$ 20,215,567	$ -	$ 116,886,598

Long-term Debt

At June 30, 2016 and 2015, the District had long-term debt of $171,569,874 and $98,300,852 outstanding, respectively (See Note 6 to the basic financial statement for further details).

Changes in long-term debt in fiscal year 2016 were as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Certificates of participation (2004)	$ 12,595,000	$ -	$ (12,595,000)	$ -
Certificates of participation (2008)	16,560,000	-	(16,560,000)	-
Certificates of participation (2011)	68,135,000	-	(68,135,000)	-
Replenishment Assessment Revenue Bonds	-	148,345,000	-	148,345,000
	97,290,000	148,345,000	(97,290,000)	148,345,000
Bond discount	(390,435)	-	390,435	-
Bond premium	1,401,287	23,224,874	(1,401,287)	23,224,874
Total long-term debt	$ 98,300,852	$ 171,569,874	$ (98,300,852)	$ 171,569,874

Changes in long-term debt in fiscal year 2015 were as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Certificates of participation (2004)	$ 13,000,000	$ -	$ (405,000)	$ 12,595,000
Certificates of participation (2008)	16,905,000	-	(345,000)	16,560,000
Certificates of participation (2011)	69,195,000	-	(1,060,000)	68,135,000
	99,100,000	-	(1,810,000)	97,290,000
Bond discount	(407,288)	-	16,853	(390,435)
Bond premium	1,455,356	-	(54,069)	1,401,287
Total long-term debt	$ 100,148,068	$ -	$ (1,847,216)	$ 98,300,852

Requests for Information

This management's discussion and analysis is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and overall financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Chief Financial Officer at 4040 Paramount Boulevard, Lakewood, California 90712.

Basic Financial Statements

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	June 30, 2016	June 30, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 47,303,889	$ 46,402,613
Water replenishment assessments receivable, net	20,683,118	16,502,465
Grants receivable	4,858	11,516
Notes receivable - current portion	308,460	694,829
Prepaid expenses and other deposits	186,466	365,583
Total current assets - unrestricted	68,486,791	63,977,006
Restricted current assets - cash and cash equivalents		
Cash and cash equivalents	75,168,581	28,444,554
Total current assets	143,655,372	92,421,560
Noncurrent assets		
Notes receivable - net of current portion	925,341	1,233,800
Capital assets, net	141,795,238	116,886,598
Total noncurrent assets	142,720,579	118,120,398
Total assets	286,375,951	210,541,958
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	12,538,541	-
Pension contributions	2,242,445	1,062,375
Total deferred outflows of resources	14,780,986	1,062,375
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	9,370,037	7,729,111
Accrued wages and related payables	246,579	128,535
Compensated absences - current portion	178,201	158,858
Advances from Caltrans	5,243,866	5,340,868
Interest payable	5,463,640	1,963,534
Long-term debt - current portion	1,655,000	1,875,000
Total current liabilities	22,157,323	17,195,906
Noncurrent liabilities		
Net pension liability	3,086,939	2,752,916
Compensated absences - net of current portion	216,466	209,310
Post employment benefits	305,895	-
Long-term debt - net of current portion	169,914,874	96,425,852
Total noncurrent liabilities	173,524,174	99,388,078
Total liabilities	195,681,497	116,583,984
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - replenishment assessments	16,039,344	13,867,470
Deferred inflows of resources - pension	1,713,395	1,135,335
Total deferred inflows of resources	17,752,739	15,002,805
NET POSITION		
Net position		
Net investment in capital assets	45,393,945	47,030,300
Unrestricted	42,328,756	32,987,244
Total net position	$ 87,722,701	$ 80,017,544

See notes to the financial statements.

	Years ended June 30, 2016	2015
Operating revenues		
Water replenishment assessment	**$ 58,128,626**	$ 79,085,428
Desalter assessments	**619,806**	517,963
Water treatment subsidies	**412,706**	182,649
Other operating income	**691,718**	368,083
Total operating revenues	**59,852,856**	80,154,123
Operating expenses		
Water supply management:		
Water purchases - injecting	**17,798,133**	23,385,697
Water purchases - spreading	**16,290,901**	14,325,715
Connection fees	**2,824,490**	2,586,820
Groundwater basin management:		
In-lieu replenishment	**-**	6,241,887
General and administrative	**14,873,310**	23,451,200
Total operating expenses	**51,786,834**	69,991,319
Operating income before depreciation and amortization	**8,066,022**	10,162,804
Depreciation and amortization	**(4,003,734)**	(2,629,444)
Operating income	**4,062,288**	7,533,360
Nonoperating revenue (expense)		
Property taxes	**585,957**	581,180
Interest and investment earnings	**562,438**	163,704
Interest expense	**(2,148,520)**	(2,144,351)
Election costs	**-**	(1,397,597)
Other, net	**4,192,116**	4,102,881
Net nonoperating revenue	**3,191,991**	1,305,817
Income before capital contributions	**7,254,279**	8,839,177
Capital contributions - capital grants	**450,878**	1,109,714
Total capital contributions	**450,878**	1,109,714
Change in net position	**7,705,157**	9,948,891
Total net position - beginning of year, as restated	**80,017,544**	70,068,653
Total net position - end of year	**$ 87,722,701**	$ 80,017,544

See notes to the financial statements.

	Years ended June 30, 2016	2015
Cash flows from operating activities		
Cash receipts from water assessments and subsidies	**$ 62,614,253**	$ 62,608,710
Cash paid to vendors and suppliers for materials and services	**(59,430,294)**	(71,856,222)
Cash paid to employees for salaries and wages	**(3,470,647)**	(3,682,254)
Net cash used in operating activities	**(286,688)**	(12,929,766)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	**(28,912,374)**	(20,308,946)
Payment of long-term debt	**(98,300,852)**	(1,847,216)
Proceeds from issuance of debt	**171,569,874**	-
Proceeds from capital contributions - capital grants	**457,536**	5,784,191
Deferred capital project	**(97,002)**	(127,120)
Interest paid on long-term debt	**1,351,586**	(4,706,165)
Net cash provided by (used in) capital and related financing activities	**46,068,768**	(21,205,256)
Cash flows from non-capital financing activities		
Proceeds from property taxes	**585,957**	581,180
Net cash provided by non-capital financing activities	**585,957**	581,180
Cash flows from investing activities		
Principal received from (issuance of) notes receivable	**694,828**	299,869
Interest and investment earnings	**562,438**	166,712
Net cash provided by investing activities	**1,257,266**	466,581
Change in cash and cash equivalents	**47,625,303**	(33,087,261)
Cash and cash equivalents - beginning of year	**74,847,167**	107,934,428
Cash and cash equivalents - end of year	**$ 122,472,470**	$ 74,847,167
Reconciliation of cash and cash equivalents to statements of net position		
Cash and cash equivalents	**$ 47,303,889**	$ 46,402,613
Restricted assets - cash and cash equivalents	**75,168,581**	28,444,554
Total cash and cash equivalents	**$ 122,472,470**	$ 74,847,167
Noncash, investing, capital and financing activities		
Capitalized interest	**$ 4,486,520**	$ 2,536,065

See notes to the financial statements.

	Years ended June 30, 2016	2015
Reconciliation of operating income to net cash used in operating activities		
Operating income	$ 4,062,288	$ 7,533,360
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation	4,003,734	2,629,444
Election costs	-	(1,397,597)
Effect of prior period adjustment	-	(3,214,691)
Other non-operating revenues (expenses), net	4,192,116	4,102,881
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Water replenishment assessments receivable, net	(4,180,653)	(1,696,619)
Prepaid expenses and other deposits	179,117	(11,621)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses - water purchases	1,640,926	(2,628,515)
Deferred outflows of resources	(13,718,611)	(1,062,375)
Deferred inflows of resources	2,749,934	(19,951,675)
Accrued wages and related payables	118,044	8,341
Net pension liability	334,023	2,752,916
Compensated absences	26,499	6,385
Total adjustments	(4,348,976)	(20,463,126)
Net cash used in operating activities	$ (286,688)	$ (12,929,766)

See notes to the financial statements.

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Reporting Entity

The Water Replenishment District of Southern California (District) was formed by a vote of the people in 1959 for the purpose of protecting the groundwater resources of the Central and West Coast groundwater basins in Southern Los Angeles County. The District provides groundwater management for four million residents in 43 cities of Southern Los Angeles County (County). The District was formed in response to a history of overpumping of the basins which caused wells to go dry and seawater to intrude into the potable water aquifers. The District's principal funding mechanisms include a water replenishment assessment on all the pumping from the groundwater basins and a general tax assessment in the form of a tax levy upon the real property and improvements within the County. The District is governed by a five member Board of Directors who serve overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statements No. 14 and 61 (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) it is able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Southern California Water Replenishment Financing Corporation (Corporation) was incorporated on March 11, 1999. The Corporation is a California nonprofit public benefit corporation formed to assist the District by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the Corporation is a legally separate entity, it is included as a blended component unit of the District, as it is in substance a part of the District's operations. No separate financial statements are prepared for the Corporation.

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of managing the groundwater basins on a continuing basis are financed or recovered primarily through user charges (water replenishment assessments), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues from water replenishment assessments are recognized in the accounting period in which related costs or charges associated with the rates assessed are incurred. Expenses are recognized in the period incurred.

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating revenues, such as water replenishment assessments, result from exchange transactions associated with the District's principal activity. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives or receives value without directly receiving or giving value in exchange. Operating expenses, such as water purchases, are the result of the District's exchange transactions along with associated expenses for running the District's day-to-day operations. Nonoperating expenses, such as interest paid on debt service or election costs every other year, are the result of expenses that do not relate to the District's day-to-day operations.

Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net position replaces the balance sheet and reports assets, liabilities, and the difference between them as net position, not equity. A statement of revenues, expenses and changes in net position replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2016, the District adopted the following new Statements of GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application.* This statement provides guidance for determining a fair value measurement for financial reporting purposes, and for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this statement did not have a significant impact on the District's financial statements for the fiscal year ended June 30, 2016.

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to certain provisions of GASB Statements 67 and 68.* This statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement 68 for pension plans and pensions that are within their respective scopes. The implementation of this statement did not have a significant impact on the District's financial statements for the fiscal year ended June 30, 2016.

- GASB Statement No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The implementation of this statement did not materially impact the District's financial statements for the fiscal year ended June 30, 2016.

Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Assets, Liabilities and Net Position

Use of Estimates - The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Whenever possible, the District's cash is invested in interest bearing accounts. However, the safety and liquidity of the District's cash always takes priority over yield. The District considers all highly liquid investments with a maturity of 12 months or less to be cash equivalents.

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Water Replenishment Assessments Receivable - The District extends credit to customers in the normal course of operations. Management closely monitors outstanding balances and, based on collection experience, has determined an allowance for doubtful accounts of $0 at June 30, 2016 and 2015.

Grants Receivable - When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a grant receivable on the statement of net position and as a grant contribution on the statement of revenues, expenses and changes in net position.

Property Taxes and Assessments - The County Assessor's Office assesses all real and personal property within the County each year. The County Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

Prepaid Expenses and Other Deposits - Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Capital Assets - Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. A provision for depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

- Utility plant and equipment and capacity rights - 30 years
- Monitoring and injection equipment - 3 to 20 years
- Service connections - 50 years
- Office furniture and equipment - 5 to 10 years
- Building and improvements - 30 to 40 years

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* the district has evaluated prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Management asserted that there were no impairments of capital assets as of June 30, 2016 and 2015.

Bond discount – The Bond discount is being amortized using the effective interest method.

Compensated Absences - The District's policy is to permit employees to accumulate a limited amount of earned vacation and sick leave. Normally, an employee cannot accrue more than thirty days of vacation. Sick leave is payable when an employee is unable to work because of illness. Upon termination, an employee will be paid for any unused sick leave. Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed. It is management's belief that the majority of the obligation will be utilized during the course of the next fiscal year. Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment.

Deferred Outflows and Inflows of Resources
Pursuant to GASB Statement Nos. 63 and 65, the District recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

Net Position - The financial statements utilize a net position presentation. Net position is categorized as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any related debt outstanding against the acquisition, construction or improvement of those capital assets.

- Restricted - This component of net position consists of constraints placed on net position use through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments or restrictions imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted net position as of June 30, 2016 and 2015.

- Unrestricted - This component of net position consists of net position that do not meet the definition of restricted net position or net investment in capital assets.

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues, Expenses and Changes in Net Position

Water Replenishment Assessments - Water replenishment assessments are billed on a monthly basis and are recognized in the accounting period in which related costs or charges associated with the rates assessed are incurred.

Overhead Absorption - Certain operating expenses are allocated to capital assets using management's allocation of manpower and service estimates that are directly related to the construction of capital assets.

Capital Contributions - Capital contributions represent cash and capital asset additions contributed to the District by State granting agencies.

Other

Budgetary Policies - The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period.

NOTE 2 CASH AND INVESTMENTS

Cash and investments as of June 30 are classified in the accompanying financial statements as follows:

	2016	2015
Cash and cash equivalents	$ 47,303,889	$ 46,402,613
Restricted cash and cash equivalents	75,168,581	28,444,554
Total cash and cash equivalents	$ 122,472,470	$ 74,847,167

Cash and investments as of June 30 consist of the following:

	2016	2015
Deposits with financial institutions	$ 52,846,336	$ 51,941,729
Cash and cash equivalents with fiscal agent - mutual funds	69,626,134	22,905,438
Total cash and cash equivalents	$ 122,472,470	$ 74,847,167

NOTE 2 CASH AND INVESTMENTS

The District's cash and cash equivalents balance as of June 30 are presented as follows:

	2016	2015
Operating Reserve Fund	**$ 4,192,471**	$ 5,781,000
Reserved cash and cash equivalents:		
Water Purchase Fund	**30,701,860**	38,394,927
Capital Projects	**4,879,075**	3,641,849
Debt Service Reserve Fund	**15,949,262**	6,244,747
Total reserved cash and cash equivalents	**51,530,197**	48,281,523
Restricted cash:		
Capital Projects - Bond Trustee	**69,626,134**	14,672,289
Cal Trans Trust Fund	**5,542,446**	5,539,116
Debt Service Reserve Fund - Bond Trustee	**1,748**	8,233,149
Restricted cash and cash equivalents	**75,170,328**	28,444,554
Reconciling items:		
Capital Projects Reimbursement in Transit	**(8,420,526)**	(7,659,910)
Total restricted cash	**66,749,802**	20,784,644
Total Cash and Cash Equivalents	**$ 122,472,470**	$ 74,847,167

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that addresses interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% off base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity over time as necessary to provide the cash flow and liquidity needed for operations. As of June 30, 2016 and 2015, the District's funds are placed in investments with maturities of 12 months or less.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Maturities of investments at June 30, 2016, were as follows:

		Remaining Maturity (in Months)		
Investment Type	Total	12 Months or Less	13 to 24 Months	25+ Months
Cash and investments with fiscal agent:				
Money Market Mutual Funds	$ 86,119,032	$ 86,119,032	$ -	$ -

Maturities of investments at June 30, 2015, were as follows:

		Remaining Maturity (in Months)		
Investment Type	Total	12 Months or Less	13 to 24 Months	25+ Months
Cash and investments with fiscal agent:				
Money Market Mutual Funds	$ 44,183,185	$ 44,183,185	$ -	$ -

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2016, were as follows:

Investment Type	Total	Minimum Legal Rating	Ratings as of Year End Unrated	AAA	AA-	BBB+
Cash and investments with fiscal agent:						
Money Market Mutual Funds	$ 86,119,032	A	$ -	$ 86,119,032	$ -	$ -

Credit ratings of investments as of June 30, 2015, were as follows:

Investment Type	Total	Minimum Legal Rating	Ratings as of Year End Unrated	AAA	AA-	BBB+
Cash and investments with fiscal agent:						
Money Market Mutual Funds	$ 44,183,185	A	$ -	$ 44,183,185	$ -	$ -

Concentration of Credit Risk

The District’s investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2016 and 2015, there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2016, $39,211,485 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Fair Value Measurements

During the fiscal year ended June 30, 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; while Level 3 inputs are significant unobservable inputs.

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.
- Level 2 inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The following tables represent the District's fair value hierarchy for its financial assets measured at fair value on a recurring basis:

	June 30, 2016				
Investment Type	**Investments That Are Not Measured at Fair Value**	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs Level 3**	**Total**
Money Market Mutual Funds	**$ 86,119,032**	**$ -**	**$ -**	**$ -**	**$ 86,119,032**

	June 30, 2015				
Investment Type	Investments That Are Not Measured at Fair Value	Quoted Prices in Active Markets from Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs Level 3	Total
Money Market Mutual Funds	$ 44,183,185	$ -	$ -	$ -	$ 44,183,185

NOTE 3 NOTES RECEIVABLE

Notes receivable are presented as follows in the statement of net position as of June 30:

		2016		2015
Notes receivable - current portion	**$**	**308,460**	$	694,829
Notes receivable - noncurrent portion		**925,341**		1,233,800
	$	**1,233,801**	$	1,928,629

City of Paramount
The District entered into a loan agreement with the City of Paramount in fiscal year 2006 for the amount of $1,700,000. The loan is payable annually over a 10 year period. The loan is unsecured and non-interest bearing. The balance at June 30, 2015 of $188,888 was fully paid in December 2015.

City of Lakewood
On November 24, 2008, the District entered into a loan agreement with the City of Lakewood for a maximum loan amount of $2,200,000 to finance the design, installation and construction of a wellhead treatment system at the City's groundwater well. The loan is payable annually over a 10 year period. The loan is unsecured and non-interest bearing. The project was completed during the fiscal year 2010-2011. Annual repayment of the loan in the amount of $220,000 started upon completion of the project and full disbursement of the loan proceeds to the City. The balance at June 30, 2016 and 2015 was $789,921 and $1,184,881, respectively.

City of Maywood
On June 19, 2009, the District entered into a loan agreement with the Maywood Mutual Water Company Number 2 (Water Company) for a maximum loan amount of $900,000, to finance the design, installation and construction of a wellhead treatment system at the Water Company's groundwater well. The loan is payable annually over a 10 year period. The loan is unsecured and non-interest bearing. The Water Company has drawn down a total of $1,109,801 as of June 30, 2016. Annual repayment of the loan in the amount of $110,000 started in the fiscal year 2010-2011 when the project was completed. The outstanding balance at June 30, 2016 and 2015 was $443,880 and $554,860, respectively.

Future scheduled repayments of notes receivable are as follows:

Year ending June 30		Amount
2017	$	308,460
2018		308,460
2019		308,460
2020		308,460
	$	1,233,840

NOTE 4 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2016 were as follows:

	Balance July 1, 2015	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2016
Non-depreciable assets				
Land	$ 12,893,714	$ 171,980	$ -	$ 13,065,694
Construction-in-process	60,007,433	28,715,684	(40,283,822)	48,439,295
Total non-depreciable assets	72,901,147	28,887,664	(40,283,822)	61,504,989
Depreciable assets				
Bulding and improvements	10,283,111	-	-	10,283,111
Utility plant and equipment	38,074,348	40,283,822	-	78,358,170
Capacity rights	2,439,604	-	-	2,439,604
Monitoring and injection equipment	21,120,324	24,710	(64,834)	21,080,200
Service connections	101,420	-	-	101,420
Total depreciable assets	72,018,807	40,308,532	(64,834)	112,262,505
Accumulated depreciation and amortization				
Building and improvements	(2,163,291)	(275,374)	-	(2,438,665)
Utility plant and equipment	(15,123,396)	(2,608,057)	-	(17,731,453)
Capacity rights	(813,420)	(81,309)	-	(894,729)
Monitoring and injection equipment	(9,846,454)	(1,036,966)	64,834	(10,818,586)
Service connections	(86,795)	(2,028)	-	(88,823)
Total accumulated depreciation and amortization	(28,033,356)	(4,003,734)	64,834	(31,972,256)
Depreciable assets, net	43,985,451	36,304,798	-	80,290,249
Capital assets, net	$ 116,886,598	$ 65,192,462	$ (40,283,822)	$ $141,795,238

Changes in capital assets for the year ended June 30, 2015 were as follows:

	Balance July 1, 2014	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2015
Non-depreciable assets				
Land	$ 2,644,753	$ 10,248,961	$ -	$ 12,893,714
Construction-in-process	50,497,984	9,509,449	-	60,007,433
Total non-depreciable assets	53,142,737	19,758,410	-	72,901,147
Depreciable assets				
Bulding and improvements	10,283,111	-	-	10,283,111
Utility plant and equipment	38,074,348	-	-	38,074,348
Capacity rights	2,439,604	-	-	2,439,604
Monitoring and injection equipment	18,033,723	3,086,601	-	21,120,324
Service connections	101,420	-	-	101,420
Total depreciable assets	68,932,206	3,086,601	-	72,018,807
Accumulated depreciation and amortization				
Building and improvements	(1,887,917)	(275,374)	-	(2,163,291)
Utility plant and equipment	(13,854,251)	(1,269,145)	-	(15,123,396)
Capacity rights	(732,111)	(81,309)	-	(813,420)
Monitoring and injection equipment	(8,844,866)	(1,001,588)	-	(9,846,454)
Service connections	(84,767)	(2,028)	-	(86,795)
Total accumulated depreciation and amortization	(25,403,912)	(2,629,444)	-	(28,033,356)
Depreciable assets, net	43,528,294	457,157	-	43,985,451
Capital assets, net	$ 96,671,031	$ 20,215,567	$ -	$ $116,886,598

NOTE 4 CAPITAL ASSETS (CONTINUED)

Major capital asset additions during the year include work on various stages of construction projects. A significant portion of these additions related to various projects that were completed during the current year and transferred out of construction-in-process and into the related capital assets categories.

The District engaged in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at as of June 30 are as follows:

	2016	2015
Leo J. Vander Lans Advanced Water Treatment Facility (LJVWTF) expansion	**$ 10,973**	$ 40,284,559
Caltans Pipeline	**875,981**	913,182
Goldworthy Desalter	**7,722,714**	2,220,161
Regional Groundwater Monitoring Program	**51,890**	51,980
Safe Drinking Water Program	**798,002**	716,184
Dominguez Gap Recycled Water Project	**804,698**	804,698
Replenishment operations (Interconnection Pipeline)	**300,000**	300,000
Alamitos Physical Barrier Project	**549,441**	549,441
Groundwater Replenishment Improvement Project (GRIP)	**23,139,407**	7,054,328
Groundwater Infrastructure Improvements	**596,036**	233,246
Environmental Monitoring	**1,134,234**	594,765
Bond interest for capital projects	**10,826,159**	6,284,889
Whittier Narrow Conservation Pool	**477,915**	-
SCADA	**419,671**	-
Asset Management	**347,687**	-
Paramount Equipment/Fleet Center	**264,508**	-
ADM	**119,979**	-
Total construction-in-process	**$ 48,439,295**	$ 60,007,433

Capitalized Interest
Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost of $4,486,520 and $2,536,065 was capitalized during the years ended June 30, 2016 and 2015, respectively.

NOTE 5 COMPENSATED ABSENCES

Changes in compensated absences were as follows:

		2016		2015
Balance at beginning of year	**$**	**368,168**	$	361,783
Earned by employees		**216,903**		153,227
Payments to employees		**(190,404)**		(146,842)
Balance at end of year		**394,667**		368,168
Less current portion		**(178,201)**		(158,858)
Long-term portion	**$**	**216,466**	$	209,310

NOTE 6 LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2016 were as follows:

		Balance July 1, 2015		Additions		Deletions		Balance June 30, 2016
Certificates of participation (2004)	$	12,595,000	$	-	$	(12,595,000)	$	-
Certificates of participation (2008)		16,560,000		-		(16,560,000)		-
Certificates of participation (2011)		68,135,000		-		(68,135,000)		-
Replenishment Assessment Revenue Bonds (2015)		-		148,345,000		-		148,345,000
		97,290,000		148,345,000		(97,290,000)		148,345,000
Bond discount		(390,435)		-		390,435		-
Bond premium		1,401,287		23,224,874		(1,401,287)		23,224,874
	$	98,300,852	$	171,569,874	$	(98,300,852)	$	171,569,874

Changes in long-term debt for the year ended June 30, 2015 were as follows:

		Balance July 1, 2014		Additions		Deletions		Balance June 30, 2015
Certificates of participation (2004)	$	13,000,000	$	-	$	(405,000)	$	12,595,000
Certificates of participation (2008)		16,905,000		-		(345,000)		16,560,000
Certificates of participation (2011)		69,195,000		-		(1,060,000)		68,135,000
		99,100,000		-		(1,810,000)		97,290,000
Bond discount		(407,288)		-		16,853		(390,435)
Bond premium		1,455,356		-		(54,069)		1,401,287
	$	100,148,068	$	-	$	(1,847,216)	$	98,300,852

Certificates of Participation

On November 9, 2004, the District executed and issued certificates of participation in the amount of $15,410,000 to provide funds for the acquisition, construction and installation of certain clean water and replenishment projects and the purchase of a building which serves as the District's headquarters. In addition, a portion of the funds were used to pay certain costs incurred in connection with the execution and delivery of the certificates and to fund a reserve fund for the outstanding certificates. Interest is payable semiannually on August 1st and February 1st of each year while principal payments are made on August 1st each year, commencing August 1, 2007, with interest rates ranging from 2.5% to 5%. The revenue certificates of participation are collateralized by a pledge of District revenues.

NOTE 6 LONG-TERM DEBT (CONTINUED)

On December 1, 2008, the District issued certificates of participation amounting to $18,365,000, payable in annual installments from August 1, 2009 through August 1, 2038. Interest rates range from 3.75% to 5.25%, payable beginning February 1, 2009. The agreement is between the District and the Southern California Water Replenishment Financing Corporation, with US Bank serving as trustee. The proceeds to be used to finance the acquisition, construction and installation of certain clean water and replenishment projects and the purchase of a building which serves as the District's headquarters. The revenue certificates of participation are collateralized by a pledge of District revenues.

Following are the five capital improvement projects financed from the certificates of participation proceeds:

- Upgrades and improvements to the Water Treatment Facility
- Construction of safe drinking water wellhead treatment units
- Construction of San Gabriel River rubber dams
- Construction of trunk line capacity for the Desalter and Water Treatment Facility
- Acquisition and construction of the District's headquarters

On August 19, 2011, the District issued 2011 Water Revenue certificates of participation amounting to $69,195,000, payable in installments starting from August 1, 2014 through August 1, 2038. Interest rates range from 3% to 5.25% payable semiannually, beginning February 1, 2012. The proceeds from the sale of the certificates are to be used to (1) finance the acquisition, construction and installation of certain clean water and replenishment projects for the District, (2) fund the reserve fund for the certificates, (3) fund capitalized interest through August 1, 2012, and (4) pay costs of issuance of the certificates. The projects to be financed by the proceeds are: (1) the LJVWTF Expansion Project, (2) the GRIP Facility, (3) the Regional Groundwater Monitoring Program, (4) the Safe Drinking Water Program, and (5) the Groundwater Infrastructure Improvements.

On December 10, 2015, the principal outstanding on the 2004, 2008 and 2011 certificates of participation were refinanced through the issuance of the District's Replenishment Assessment Revenue Bonds, Series 2015.

Replenishment Assessment Revenue Bonds

On December 10, 2015, the District issued $148,345,000 of Replenishment Assessment Revenue Bonds, Series 2015. The bonds were rated AA+ from both Standard & Poor's and Fitch Ratings. The proceeds were used to refinance the District's outstanding 2004, 2008 and 2011 certificates of participation and provide $69,500,000 which will fund the District's 5-year capital improvement plan, including projects such as the Groundwater Reliability Improvement Project, the expansion of the Goldsworthy Desalter, the Groundwater Basin Management Program and the Safe Drinking Water Program. The bonds call for level debt service payments and mature during the year ended June 30, 2046.

NOTE 6 LONG-TERM DEBT (CONTINUED)

Future minimum principal and interest payments are as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 1,655,000	$ 7,591,245	$ 9,246,245
2018	2,350,000	6,897,700	9,247,700
2019	2,445,000	6,801,800	9,246,800
2020	2,560,000	6,688,900	9,248,900
2021	2,690,000	6,557,650	9,247,650
2022-2026	15,670,000	30,571,250	46,241,250
2027-2031	20,115,000	26,120,875	46,235,875
2032-2036	25,825,000	20,406,875	46,231,875
2037-2041	33,165,000	13,069,875	46,234,875
2042-2046	41,870,000	4,362,625	46,232,625
Total	$ 148,345,000	$ 129,068,795	$ 277,413,795
Less current portion	1,655,000		
Total non-current	$ 146,690,000		

Accrued interest payable amounted to approximately $5.5 million and 2.0 million as of June 30, 2016 and 2015, respectively.

NOTE 7 UNEARNED REVENUE

Cities may prepay its water replenishment assessment per the terms of a groundwater banking agreement between the District and the respective city. There was no unearned revenue as of June 30, 2016 and 2015.

NOTE 8 ADVANCES FROM CALTRANS

In April 2004, the District and the California Department of Transportation (Caltrans) entered into an agreement relating to groundwater in the vicinity of the I-105 freeway. The agreement calls for $8.0 million to be paid by Caltrans to the District to be used to pay the costs of the proposed pipeline project described in the agreement, and to pay the replenishment assessment levied against the Caltrans groundwater extractions from beneath the I-105 freeway section. Caltrans advanced the $8.0 million to the District to fund the proposed pipeline project. As of June 30, 2016 and 2015, the District has spent $2,756,134 and $2,659,132 on the project, leaving an unexpended balance on the advance of $5,243,866 and $5,340,868, respectively.

NOTE 9 DEFERRED INFLOWS OF RESOURCES

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, for rate–regulated activities the District defers the recognition of revenues until the related costs or charges associated with the rates assessed is incurred. The balance of Deferred Revenue – Replenishment Assessments of $16.0 million and $13.9 million as of June 30, 2016 and 2015, respectively, pertains to assessments that were deferred until the related costs of water supply management are incurred. Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, these amounts are reported as deferred inflows of resources in the Statement of Net Position.

NOTE 10 NET PENSION - NET INVESTMENT IN CAPITAL ASSETS

The calculation of net position - balance of net investment in capital assets at June 30 is as follows:

		2016		2015
Capital assets, net	**$**	**141,795,238**	$	116,886,598
Long-term debt:				
Current portion		**(1,655,000)**		(1,875,000)
Noncurrent portion		**(169,914,874)**		(96,425,852)
Unspent debt proceeds		**75,168,581**		28,444,554
Net pension - net investment in capital assets	**$**	**45,393,945**	$	47,030,300

NOTE 11 DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in IRS Code Section 457 and 401(a) Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for District employees that elect to participate in the Programs. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. The District is in compliance with this legislation. These assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Unaudited market value of all plan assets held in trust at June 30, 2016 and 2015 was $3,238,805 and $2,565,552, respectively.

In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The assets and related liabilities are not shown on the statements of net position. The District has little administrative involvement and does not perform the investing function for this plan.

NOTE 12 DEFINED BENEFIT PENSION PLAN

Plan Description

The District's defined benefit pension plan (the Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Miscellaneous Risk Pool Public Agency portion of the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California (State).

A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through the District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 Q Street, Sacramento, California 95811.

Funding Policy

The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Under the Public Employees' Pension Reform Act (PEPRA) of 2013, the District pays the member contribution to CalPERS (8% of annual covered salary) for classic members (defined as eligible participants hired prior to January 1, 2013). New members hired on or after January 1, 2013 are also required to contribute at least 50% of their normal pension cost rate.

The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal years ended June 30, 2016 and 2015 was 13.00% and 17.80%, for classic members, respectively. Required employer contribution rate for new members is 7% for the fiscal years ended June 30, 2016 and 2015.

Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	2016	2015
Proportionate share of net pension liability	$ **3,190,280**	$ 2,857,450
Total net pension liability	$ **3,190,280**	$ 2,857,450

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Effective for measurement period 2015, CalPERS provides the GASB Statement No. 68 Accounting Valuation Report for the miscellaneous risk pool and allocation methodology to be used by participants in the risk pool. The schedules of employer allocation include three ratios. It includes allocation for the Total Pension Liability, Plan Fiduciary Net Position and all other pension amounts (e.g. deferred outflows/inflows of resources and pension expense). The Total Pension Liability is allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2014 used for funding purposes. The Plan Fiduciary Net Position is allocated based on the sum of the Plan’s Market Value of Assets from the most recent Actuarial Valuation as of June 30, 2014 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities. All other pension amounts (deferred outflows/inflows of resources and pension expense) are allocated based on the legally or statutorily required employer contributions for the fiscal year ended June 30, 2015, including reported contribution adjustments and suspended payroll information.

The District’s proportionate share for pension items as provided by CalPERS are as follows:

	2016
Total pension liability	0.00129782
Plan fiduciary net position	0.00133180
All other pension amounts (deferred outflows/inflows of resources and and pension expense)	0.00195727

For the years ended June 30, 2016 and 2015, the District recognized pension expense of $330,804 and $518,863, respectively. At June 30, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	2016		2015	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	**$ 801,773**	**$ -**	$ 904,036	$ -
Differences between actual and expected experience	**36,899**	**-**	-	-
Changes in assumption	**-**	**(349,107)**	-	-
Changes in employer's proportion	**397,640**	**(175,100)**	-	(175,100)
Differences between the employer's contribution and the employer's proportionate share of contributions	**94,232**	**(119,347)**	146,584	-
Net differences between projected and actual earnings on plan investments	**894,829**	**(1,069,841)**	-	(960,235)
Total	**$ 2,225,373**	**$ (1,713,395)**	$ 1,050,620	$ (1,135,335)

$801,773 reported as deferred outflows of resources as of June 30, 2016 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Year ending June 30	Amount
2017	$ (177,537)
2018	(175,500)
2019	(160,463)
2020	223,705
2021	-
Thereafter	-

Actuarial Assumptions
The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)
Post-Retirement Benefit Increase	(4)

(1) Varies by Entry Age and Service
(2) Net of pension plan investment and administrative expenses, including inflation
(3) Derived using CALPERS' Membership data for all funds
(4) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was changed from 7.50 percent to 7.65 percent to correct for an adjustment to exclude administrative expense. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Asset Class	Current Target Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	$ 5,350,321
Current Discount Rate	7.65%
Net Pension Liability	$ 3,190,280
1% Increase	8.65%
Net Pension Liability	$ 1,406,914

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan
As of June 30, 2016 and 2015, the District did not have outstanding amount of contributions to the pension plan required for the years ended June 30, 2016 and 2015.

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN

Plan Description

The District provides retirement benefits to its elected directors who do not participate in CalPERS through a single-employer defined benefit plan administered as part of the Public Agency Retirement System (PARS). Directors who retire at age 50 with 5 years of service with the District are eligible to receive pension benefits under the plan. The plan provides a benefit equal to the "3% at 60" plan factor of final average compensation for all years of service. The plan provides a benefit equal to "2% at 62" for Board members of the District hired after December 31, 2012 and are not participating in the CALPERS plan.

Funding Policy

The District is required to contribute the actuarially determined amounts necessary to fund the benefits for the participants. Contribution amounts are determined by an actuarial study performed every two years.

Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, 2016 and 2015, the District reported net pension liability (asset) of the plan as follows:

	Increase (Decrease)		
Changes in Net Pension Liability	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balances as of June 30, 2015	$ 250,610	$ 355,144	$ (104,534)
Changes for the year:	-	-	-
Service cost	14,757	-	14,757
Interest on total pension liability	14,546	-	14,546
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	-	-	-
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(1,814)	(1,814)	-
Employer contributions	-	21,266	(21,266)
Member contributions	-	-	-
Net investment income	-	9,664	(9,664)
Administrative expenses	-	(2,821)	2,821
Balances as of June 30, 2016	$ 278,099	$ 381,439	$ (103,340)

The net pension liability (asset) of the Plan is measured as of June 30, 2016, and the total pension liability (asset) for the Plan used to calculate the net pension liability (asset) was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2016 using standard update procedures.

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN (CONTINUED)

For the years ended June 30, 2016 and 2015, the District recognized pension expense of $17,143 and $13,748, respectively. At June 30, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

		2016		2015
Net difference between projected and actual earnings on investments	**$**	**17,072**	$	11,755

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Year ending June 30		Amount
2017	$	5,003
2018		5,003
2019		5,002
2020		2,064
2021		-
Thereafter*		-

*Note that additional future deferred inflows and outflows of resources may impact these amounts.

Actuarial Assumptions
The total pension liability (asset) in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	5.50%
Inflation	3.00%
Payroll Growth	3.00%
Projected Salary Increase	3.00%
Investment Rate of Return	5.50%
Cost of Living Adjustments	2.00%
Mortality	(1)
Post-Retirement Benefit Increase	3.00%

(1) Consistent with the rates used to value the CalPERS plan

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN (CONTINUED)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a 2014 actuarial experience study for the period 1997 to 2011 with an assumed base year of 2008 and full generational improvements using Scale AA.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Target Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Cash	4.38%	0.42%	0.41%
Core Fixed Income	80.28%	2.12%	1.99%
Equity Market	11.17%	5.12%	3.81%
Foreign Developed Equity	2.69%	5.85%	4.20%
Emerging Markets Equity	0.70%	8.07%	4.79%
Real Estate	0.78%	5.14%	3.28%
	100.00%		

(a) An expected inflation of 2.55% used for this period.
(b) An expected inflation of 2.42% used for this period.

NOTE 13 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate
The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

1% Decrease		4.50%
Net Pension Liability (Asset)	$	(69,856)
Current Discount Rate		5.50%
Net Pension Liability (Asset)	$	(103,340)
1% Increase		6.50%
Net Pension Liability (Asset)	$	(130,581)

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued PARS financial reports.

Payable to the Pension Plan
As of June 30, 2016 and 2015, the District did not have outstanding amount of contributions to the plan required for the years ended June 30, 2016 and 2015.

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in Notes 12 and 13, the District provides single-employer postemployment healthcare benefits to qualified employees who meet the District's Public Employees Retirement System (PERS) current plan requirements. The following requirements outline the criteria that must be met by District employees in order to be eligible for these benefits:

a. Employees hired prior to December 20, 2001 qualify for postemployment healthcare benefits if they retire with 12 or more years of service at the District.
b. Employees hired on or after December 20, 2001 qualify for postemployment benefits if they retire at age 55 or older with 12 or more years of service.

The District's contribution is currently based on a projected pay-as-you-go funding method, that is, benefits are payable when due. For the years ended June 30, 2016 and 2015, the District had 13 eligible employees in each year.

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Eligible participants in the plan at July 1, 2015, the date of the latest actuarial valuation are as follows:

Retirees and surviving spouses		13
Active/full-time employees		35
	Total	48

The actuarial method used in estimating the liability is the entry age normal actuarial cost method. Under the entry age normal actuarial cost method, the actuarial present value of projected benefits is allocated on a level basis over the earnings or service of individuals between entry age and the assumed exit age(s). The portion of the Actuarial Present Value (APV) of the postemployment benefits attributed to past service is called the Actuarial Accrued Liability (AAL). The significant assumptions in the computation include a discount rate of 6.73% (formerly 7.06%) , healthcare cost trend rate of 8.25% for January 1, 2016 decreasing by 0.25% through 2028 and 5.0% thereafter, an inflation rate of 8.25% for participants under 65 and 5.75% for those over 65 years of age, and an annual increase in payroll of 3.25%.

The following table shows the components of the District's annual Other Postemployment Benefits (OPEB) cost for the year (based on 30-year amortization using the level percentage of projected payroll), the amount of contribution and benefits and/or insurance premiums actually paid and the District's Net OPEB obligation (prepayment) as of June 30:

	2016	2015
Annual required contribution	**$ 606,782**	$ 613,777
Interest on net OPEB obligation	**(20,208)**	(21,199)
Adjustment to ARC	**19,587**	19,693
Annual OPEB cost	**606,161**	612,271
Contribution (including benefit payments)	**-**	(608,583)
Increase (decrease) in net OPEB obligation	**606,161**	3,688
Net OPEB obligation (prepayment) - beginning of year	**(300,266)**	(303,954)
Net OPEB obligation (prepayment) - end of year	**$ 305,895**	$ (300,266)

The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed a closed 30-year period. The amortization method used in the valuation is the level percentage of projected payroll method.

NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016, 2015 and 2014 was:

Fiscal Year End	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Prepayment)
6/30/2014	587,502	591,190	101%	(303,954)
6/30/2015	612,271	608,583	99%	(300,266)
6/30/2016	606,161	-	0%	305,895

Based on the latest Actuarial Study of the District's Postemployment Healthcare Program, as of July 1, 2015, the Unfunded Actuarial Accrued Liability (UAAL) ratio to covered payroll was 109%. During the year ended June 30, 2014 the District opened an irrevocable trust. The District contributed $0 and $608,583 to the plan for the years ended June 30, 2016 and 2015, respectively. However, the District subsequently contributed $408,000 to the plan on July 27, 2016.

Refer to Required Supplementary Information on page 48 for the plan's Schedule of Funding Progress.

NOTE 15 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2016, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,000,000, combined single limit at $2,000,000 per occurrence. The District purchased additional excess coverage layers: $58 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages. The District purchased additional coverage of $1,000,000, which increases the limit on the insurance coverage noted above.

NOTE 15 RISK MANAGEMENT (CONTINUED)

- Property loss is paid based on the replacement cost for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of $150 million per occurrence it is subject to a $2,500 deductible per occurrence. The District has a total insurable value of $69,204,976.

- Boiler and machinery coverage for the replacement cost up to $150 million per occurrence, subject to various deductibles depending on the type of equipment.

- Public officials' personal liability coverage up to $100,000 for each occurrence, with an annual aggregate of $100,000 per each elected/appointed official to which this coverage applies is subject to the terms, with a deductible of $1,000 per claim.

- Workers' compensation insurance provides coverage up to California statutory limits for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended June 30, 2016 and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR).

NOTE 16 COMMITMENTS

Recycled Water Agreement

In January 2004, the District entered into a twenty-year agreement with the West Basin Municipal Water District (WBMWD) to purchase certain amounts of recycled water from WBMWD on an annual basis. Until completion of WBMWD's recycling facility expansion project, the District will purchase 7,500 AF of recycled water on an annual basis, or a lesser amount that is authorized by WBMWD's Regional Board Permit, at $430 per AF. After the expanded facility is completed and operable, the District will purchase 12,500 AF on an annual basis at $470 per AF of recycled water. The agreement also provides for annual increases in price.

Basin Improvement Project Funding Agreement

On May 1, 2015, the District approved a settlement agreement with the cities of Bellflower, Cerritos, Downey and Signal Hill. This settlement was due to litigation related to claims that the District failed to comply with the requirements under Proposition 218 when imposing its annual replenishment assessments. As part of the agreement, the District shall fund $5,000,000 in basin improvement projects of these cities within seven years from the effective date of the agreement.

NOTE 16 COMMITMENTS (CONTINUED)

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems and other District activities. The financing of such contracts is provided primarily from the proceeds of bonds issued by the District. The District has committed to approximately $17.6 million of open construction contracts as of June 30, 2016.

The contracts outstanding include:

Project Name	Total Approved Contract	Construction Cost-to-date	Remaining Contract Balance to Complete
LJVWTF Expansion	$ 37,978,432.44	$ 37,413,044.99	$ 565,387.45
Goldsworthy Desalter	17,242,948.00	7,289,171.61	9,953,776.39
Caltrans Pipeline	745,698.00	745,698.00	-
Regional Groundwater Monitoring Program	9,727,707.63	9,727,707.63	-
Groundwater Infrastructure	1,696,398.72	1,261,267.83	435,130.89
Safe Drinking Water Program	780,000.00	719,588.92	60,411.08
Dominguez Gap Recycled Water Project	477,943.95	477,943.95	-
Interconnection Pipeline	3,800,000.00	3,800,000.00	-
Alamitos Physical Barrier Project	385,517.00	385,517.00	-
Groundwater Replenishment Improvement Project	22,266,351.88	16,931,797.01	5,334,554.87
Bond Interest Expenses for Capital Projects	-	-	-
Environmental Monitoring	1,122,670.20	1,122,670.20	-
Whittier Narrow Conservation Pool	1,475,000.00	475,000.00	1,000,000.00
SCADA System Master	592,019.00	400,092.99	191,926.01
Asset Management	-	-	-
Paramount Equip/Fleet Center	-	-	-
Administrative	139,652.96	114,665.56	24,987.40
Total	**$ 98,430,339.78**	**$ 80,864,165.69**	**$ 17,566,174.09**

Operating Leases

The District has entered into an operating lease for land which does not contain a purchase option. Rental expense was $511,423 and $142,962 for the years ended June 30, 2016 and 2015, respectively.

Future minimum annual fixed rentals required during the fiscal years 2017 through 2020 under this lease are:

Year ending June 30	Amount
2017	$ 433,529
2018	43,643
2019	43,643
2020	25,459
	$ 546,274

NOTE 17 PROPOSITION (PROP) 218 CASE

The District is currently defending a case in Los Angeles Superior Court based on claims that it failed to comply with the requirements under Prop 218 when imposing its annual replenishment assessments (RAs). This case seeks refund of the RAs paid. The District denies that Prop 218 is applicable to its adoption of an annual RA and intends to vigorously defend against this case. A brief description of the status of the case is as follows:

- *Tesoro Refining v. Water Replenishment District of Southern California,* Case No. BA134239, and *Tesoro Refining and Marketing Company v. Water Replenishment District of Southern California,* Case No. BS139830. Tesoro challenges the RAs imposed from 2006-2007 to 20-11-2012 based on Prop 218 and non-Prop 218 theories. At the Writ stage, the court ruled for the plaintiff indicating that the District was required to comply with Prop 218, but withheld the issuance of the Writ and judgment thereon until the remaining claims are adjudicated by the trial court.

Pursuant to a joint request of the parties, the February 2, 2015 trial date was vacated. Currently, the Parties are engaged in efforts to resolve the litigation through a negotiated settlement.

NOTE 18 CONTINGENCIES

Litigation
The District is a defendant in other various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District, the resolution of these matters will not have a material adverse effect on the District's financial condition.

Grant Awards
Grant funds received by the District are subject to audit by the grantor agencies. Such audits could lead to requests for reimbursements by the grantor agencies for expenditures disallowed under the terms of the grant. District management believes that such disallowances, if any, would not be significant.

NOTE 19 SUBSEQUENT EVENTS

On October 6, 2016, the Board approved an amendment with GHD for Phase 3 of the GRIP Advanced Water Treatment Facility for $6,035,000 which will be funded with the Replenishment Assessment Revenue Bonds, Series 2015.

The District has evaluated events or transactions through December 21, 2016, the date on which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no other subsequent matters require disclosure or adjustment to the accompanying financial statements.

NOTE 20 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that have effective dates that may impact future financial presentations. Management has not yet determined any impact the implementation of the following statements may have on the financial statements of the District.

GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined.

In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016.

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.
- Explanations of how and why the OPEB liability changed from year to year will improve transparency.

NOTE 20 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE (CONTINUED)

- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.

- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return.

- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.

- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms.

- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over defined, closed period, rather than a choice between an open or closed period.

The provision of this Statement are effective for financial statements for periods beginning after June 15, 2017.

GASB Statement No. 77 - *Tax Abatement Disclosures.* The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017.

NOTE 20 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE (CONTINUED)

GASB Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans.* This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.. The provisions of this Statement are effective for financial statements for period beginning after December 15, 2015.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants.* This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The provisions of this Statement are effective for financial statements for period beginning after December 15, 2015.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units-An Amendment of GASB No. 14.* This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The provisions of this Statement are effective for financial statements for period beginning after June 15, 2016.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements.* This Statement enhances the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The provisions of this Statement are effective for financial statements for period beginning after December 15, 2016.

NOTE 20 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE (CONTINUED)

GASB Statement No. 82 – ***Pension Issues-An Amendment of GASB No. 67, No. 68 and No. 73.*** The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The provisions of this Statement are effective for financial statements for period beginning after June 15, 2017.

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Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Accrued Liability [(B) – (A)] (UAAL) (C)	Funded Ratio [(A) / (B)]	Covered Payroll	UAAL as Percentage of Covered Payroll
7/1/2011	$ -	$ 5,508,234	$ 5,508,234	0%	$ 3,100,000	178%
7/1/2013	3,582,005	7,136,080	3,554,075	50%	3,200,000	111%
7/1/2015	4,927,094	8,516,179	3,589,085	58%	3,300,000	109%

	June 30, 2015	June 30, 2014
Proportion of the net pension liability (asset)	0.11629%	0.04592%
Proportionate Share of the net pension liability (asset)	$ 3,190,280	$ 2,857,450
Covered - employee payroll (1)	$ 3,642,112	$ 3,679,116
Proportionate Share of the net pension liability (asset) as a percentage of covered-employee payroll	87.59%	77.67%
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	81.98%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions (2)	$ 185,357	$ 378,030

Notes to Schedule

1 Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB Statement No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

2 The Plan’s proportionate share of aggregate employer contributions may not match the actual contributions made by the employer during the measurement period. The Plan’s proportionate share of aggregate employer contributions is based on the Plan’s proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

	June 30, 2015	June 30, 2014
Proportionate Share of the net pension liability (asset)	$ (103,340)	$ (104,534)
Covered - employee payroll [1]	$ 88,771	$ 88,771
Proportionate Share of the net pension liability (asset) as a percentage of covered-employee payroll	(116.41%)	(117.76%)
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	137.16%	141.71%
Plan's Proportionate Share of Aggregate Employer Contributions [2]	$ 17,143	$ 13,748

Notes to Schedule

1 Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB Statement No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

2 The Plan’s proportionate share of aggregate employer contributions may not match the actual contributions made by the employer during the measurement period. The Plan’s proportionate share of aggregate employer contributions is based on the Plan’s proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

	June 30, 2015	June 30, 2014
Contractually required contribution (actuarially determined)	$ 904,036	$ 576,966
Contributions in relation to the actuarially determined contributions	(904,036)	(576,966)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 3,642,112	$ 3,679,116
Contributions as a percentage of covered-employee payroll	24.82%	15.68%

Notes to Schedule

Valuation date	June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years as of valuation date
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%, net of pension plan investment and administrative expenses: includes inflation
Retirement age	57 yrs.
Mortality Rate Table	Derived using CalPERS' membership data for all funds

*Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

	June 30, 2015	June 30, 2014
Contractually required contribution (actuarially determined)	$ 14,757	$ 3,257
Contributions in relation to the actuarially determined contributions	(21,266)	(17,390)
Contribution deficiency (excess)	$ (6,509)	$ (14,133)
Covered-employee payroll	$ 88,771	$ 88,771
Contributions as a percentage of covered-employee payroll	23.96%	19.59%

Notes to Schedule

Valuation date	June 30, 2014
Methods and assumptions used to determine contribution rates:	
Actuarial Cost Method	Entry Age Normal
Amortization method	Level dollar, closed
Remaining amortization period	8.5 years as of valuation date
Asset valuation method	None
Inflation	3.00%
Salary increases	3.00%
Investment rate of return	5.50%
Retirement age	All TIER 1 participants assumed to retire upon attaining retirement eligibility and age 60. All TIER 2 participants: 67 years
Mortality Rate Table	Consistent with the Non-Industrial rates used to value the CalPERS plans.

*Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

Statistical Section
(Unaudited)

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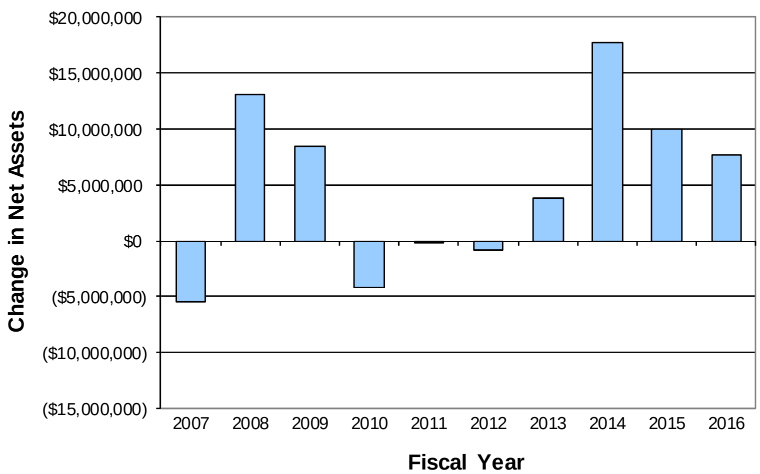
This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Table of Contents

	Page
Financial Trends These schedules contain information to help the reader understand how the District's financial performance and financial condition have changed over time.	54
Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	58
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt.	62
Demographic and Economic Statistics These schedules offer demographic indicators to help the reader understand the environment within which the District's financial activities take place.	64
Operating and Capacity Indicators This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.	66

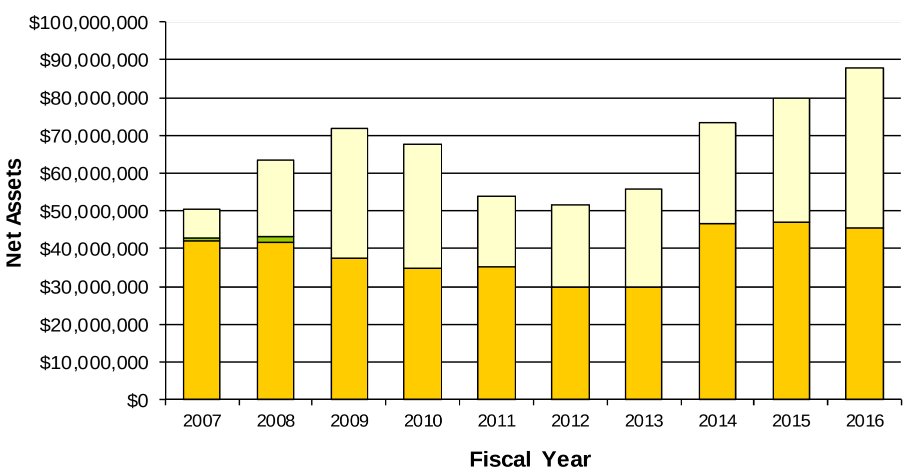
	2007	2008	2009	2010
Changes in net assets:				
Operating revenues (see Schedule 2)	$ 34,541,889	$ 39,132,053	$ 39,335,102	$ 45,601,400
Operating expenses (see Schedule 3)	(39,817,101)	(24,576,237)	(28,362,636)	(46,705,411)
Overhead absorption	958,150	-	-	-
Depreciation and amortization	(1,846,275)	(2,304,366)	(2,256,077)	(2,324,791)
Operating income(loss)	(6,163,337)	12,251,450	8,716,389	(3,428,802)
Non-operating revenues(expenses)				
Property taxes, net of collection expenses	450,001	456,702	493,625	446,160
Investment income/(loss)	1,126,993	692,431	521,171	234,908
Interest Expense	-	-	(1,013,099)	(1,183,999)
Election costs	(1,094,665)	(570,547)	(511,638)	(450,000)
Gain/(Loss) on sale/disposition of assets	-	-	-	-
Other revenue/(expense), net	58,679	182,611	180,482	131,199
Net non-operating revenues (expenses)	541,008	761,197	(329,459)	(821,732)
Net income before capital contributions	(5,622,329)	13,012,647	8,386,930	(4,250,534)
Capital contributions	148,577	97,516	9,284	60,577
Changes in net assets	$ (5,473,752)	$ 13,110,163	$ 8,396,214	$ (4,189,957)
Net assets by component:				
Invested in capital assets, net of related debt	$ 41,938,718	$ 41,757,258	$ 37,305,026	$ 34,945,659
Restricted	989,332	1,447,030	-	-
Unrestricted	7,544,372	20,378,297	34,673,773	32,843,183
Total net assets	$ 50,472,422	$ 63,582,585	$ 71,978,799	$ 67,788,842



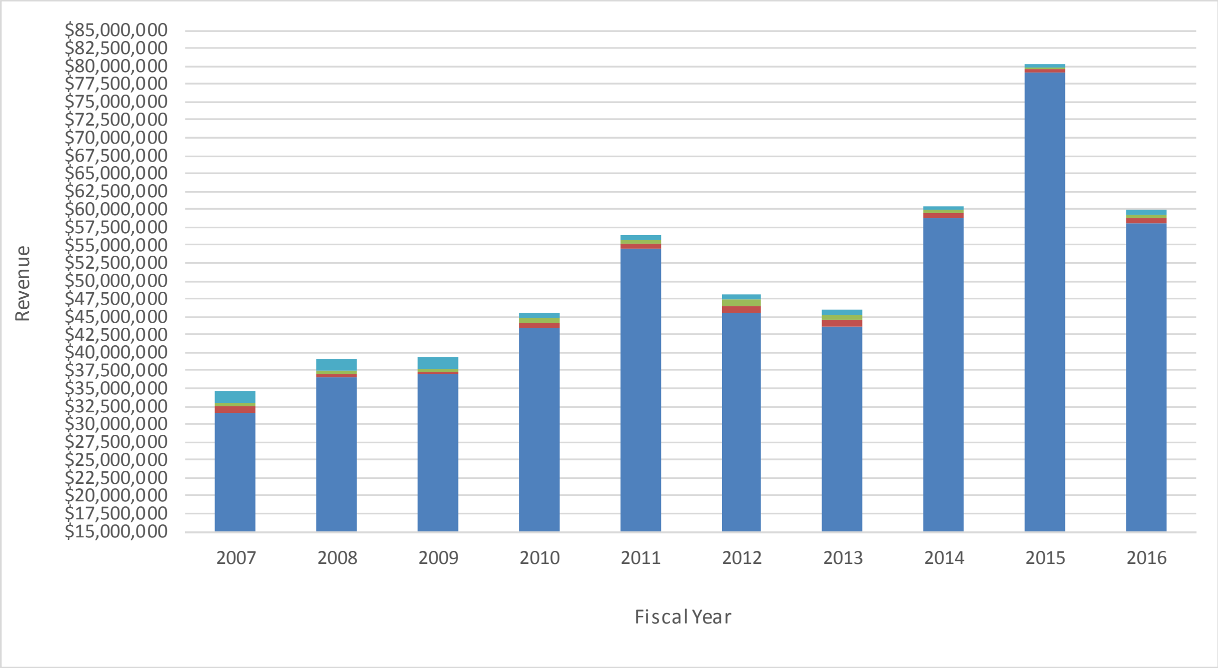
Source: Water Replenishment District Accounting Department

Fiscal Year

2011	2012	2013	2014	2015	2016
$ 56,284,385	$ 48,121,854	$ 46,003,068	$ 60,386,705	$ 80,154,123	$ 59,852,856
(52,788,111)	(44,170,360)	(38,868,302)	(44,086,875)	(69,991,319)	(51,786,834)
-	-	-	-	-	
(2,394,968)	(2,446,962)	(2,495,964)	(2,537,023)	(2,629,444)	(4,003,734)
1,101,306	1,504,532	4,638,802	13,762,807	7,533,360	4,062,288
481,874	476,937	606,562	544,319	581,180	585,957
128,575	121,351	259,644	244,961	163,704	562,438
(1,170,199)	(3,802,841)	(3,935,225)	(3,130,364)	(2,144,351)	(2,148,520)
(1,008,030)	-	-	-	(1,397,597)	-
-	-	-	-	-	
100,761	144,530	170,406	45,682	4,102,881	4,192,116
(1,467,019)	(3,060,023)	(2,898,613)	(2,295,401)	1,305,817	3,191,991
(365,713)	(1,555,491)	1,740,189	11,467,406	8,839,177	7,254,279
348,943	752,468	2,107,865	6,207,226	1,109,714	450,878
$ (16,770)	$ (803,023)	$ 3,848,054	$ 17,674,632	$ 9,948,891	$ 7,705,157
$ 35,110,097	$ 29,781,357	$ 29,824,873	$ 46,797,969	$ 47,030,300	$ 45,393,945
-	-	-	-		
18,952,155	21,979,302	25,783,840	26,485,376	32,987,244	42,328,756
$ 54,062,252	$ 51,760,659	$ 55,608,713	$ 73,283,345	$ 80,017,544	$ 87,722,701



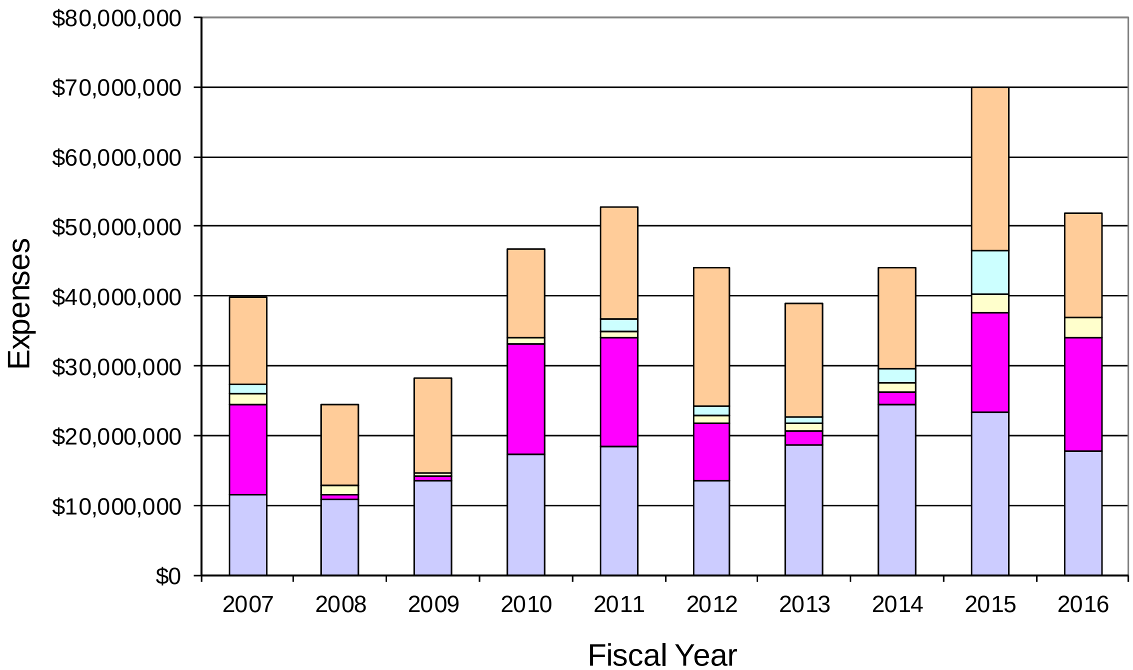
Fiscal Year	Water Replenishment Assessment	Desalter Assessments	Water Treatment Subsidies	Other Operating Revenue	Total Operating Revenue
2007	31,613,924	904,186	562,977	1,460,802	34,541,889
2008	36,482,271	606,380	476,491	1,566,911	39,132,053
2009	36,877,706	316,986	598,110	1,542,300	39,335,102
2010	43,452,025	554,734	726,375	868,266	45,601,400
2011	54,470,197	621,099	695,293	497,796	56,284,385
2012	45,571,109	913,204	894,411	743,130	48,121,854
2013	43,710,697	868,531	591,292	832,548	46,003,068
2014	58,665,579	840,559	377,650	502,917	60,386,704
2015	79,085,428	517,963	182,649	368,083	80,154,123
2016	58,128,626	619,806	412,706	691,718	59,852,856



Source: Water Replenishment District Accounting Department

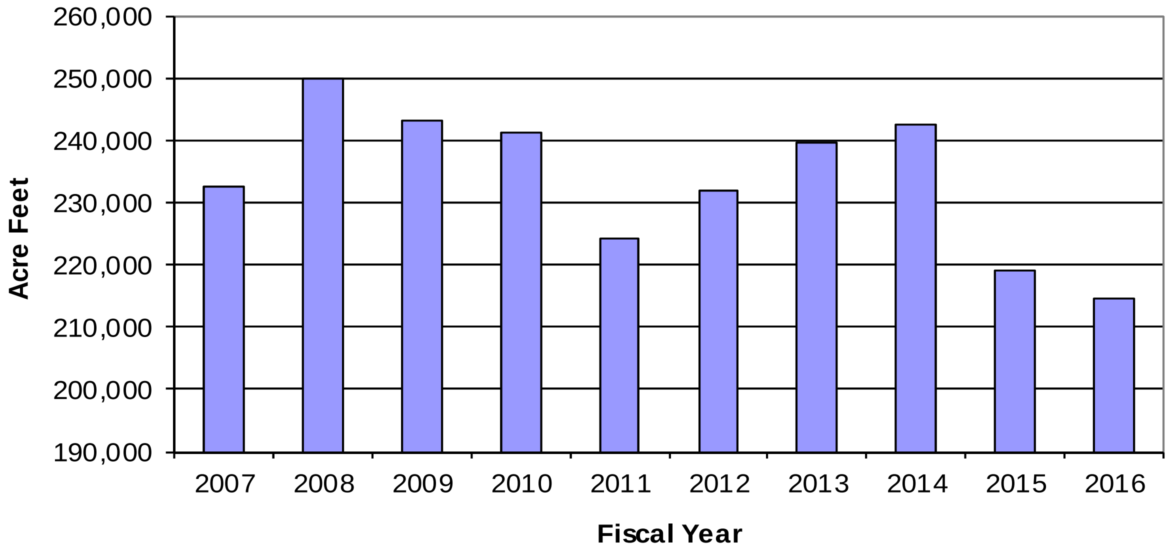
Water Replenishment District of Southern California
Financial Trends - Operating Expenses by Activity (Unaudited)
Last Ten Fiscal Years

Fiscal Year	Water Purchases Injecting	Water Purchases Spreading	Connection Fees	In-lieu Replenishment	General and Administrative	Total Operating Expenses
2007	11,514,199	13,022,679	1,437,392	1,421,149	12,421,682	39,817,101
2008	10,819,502	720,160	1,379,127	-	11,657,448	24,576,237
2009	13,623,824	601,706	536,011	-	13,601,095	28,362,636
2010	17,406,851	15,808,953	796,787	-	12,692,820	46,705,411
2011	18,552,696	15,405,518	911,745	1,937,484	15,980,668	52,788,111
2012	13,466,495	8,285,830	1,146,511	1,314,384	19,957,140	44,170,360
2013	18,599,786	2,021,060	1,187,540	888,692	16,171,224	38,868,302
2014	24,496,761	1,780,435	1,285,550	2,028,005	14,496,122	44,086,874
2015	23,385,697	14,325,715	2,586,820	6,241,887	23,451,200	69,991,319
2016	17,798,133	16,290,901	2,824,490	-	14,873,310	51,786,834



Source: Water Replenishment District Accounting Department

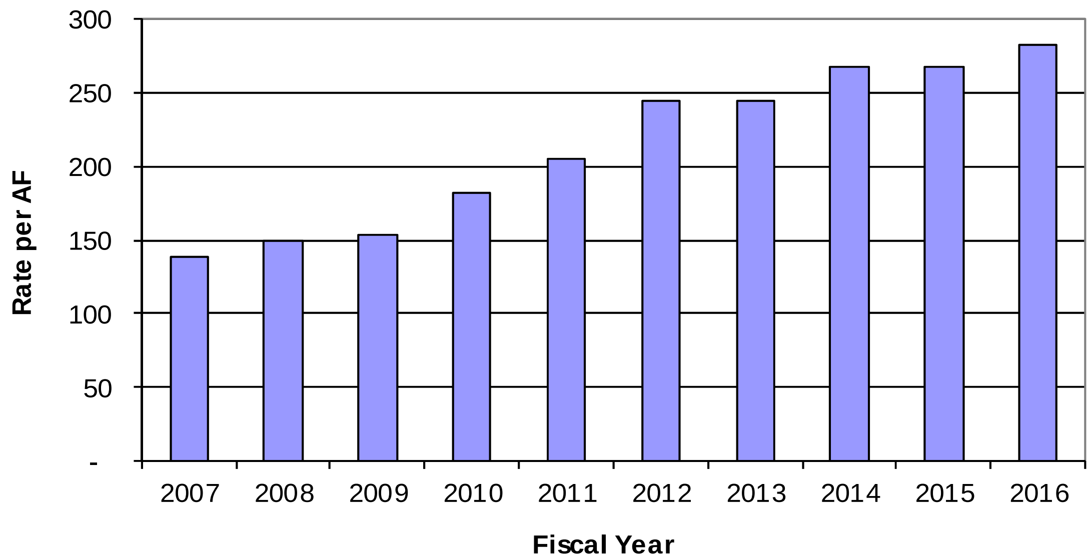
Fiscal Year	Water Pumped (Acre Feet)
2007	232,518
2008	249,873
2009	243,251
2010	241,198
2011	224,158
2012	231,815
2013	239,691
2014	242,545
2015	219,068
2016	214,489



Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

Source: Water Replenishment District Accounting Department

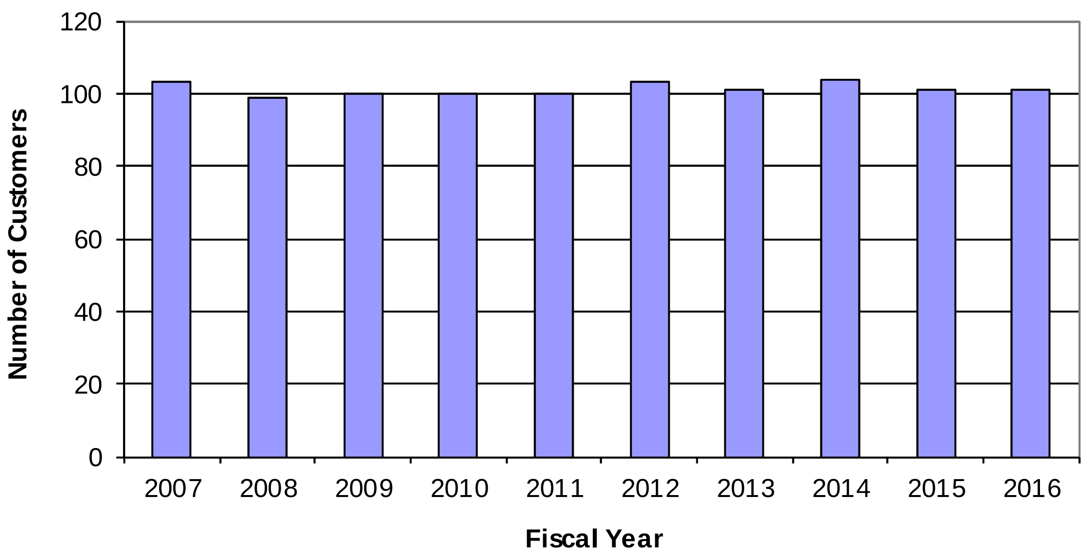
Fiscal Year	Rate per AF
2007	138
2008	149
2009	153
2010	182
2011	205
2012	244
2013	244
2014	268
2015	268
2016	283



Note: Rate as of June 30 of each fiscal year.

Source: Water Replenishment District Accounting Department

Fiscal Year	Number of Pumpers
2007	103
2008	99
2009	100
2010	100
2011	100
2012	103
2013	101
2014	104
2015	101
2016	101



Source: Water Replenishment District Accounting Department

Note: Number of customers as of June 30 of fiscal year.

<u>Number of Customers</u>

In previous years, the reported number of customers varied based on different methods of counting individual pumpers and/or water rights holders.

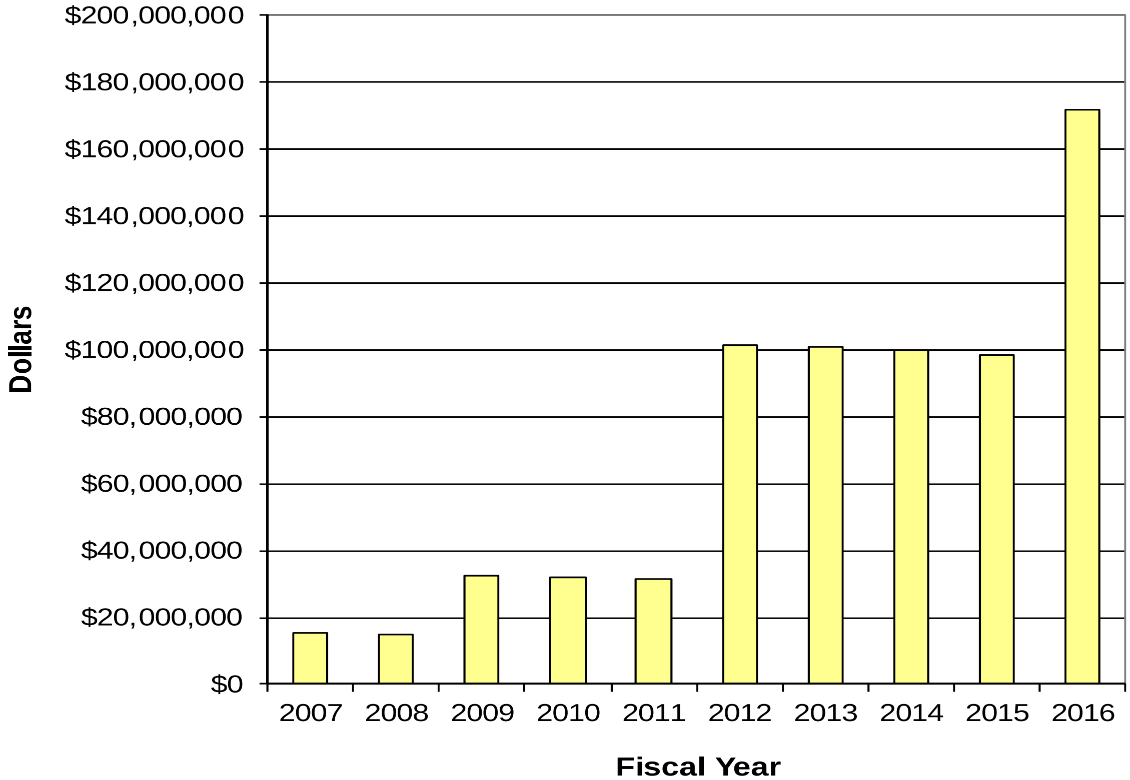
For example, in some years, California Water Service Company was counted only once, while in other years, they were counted multiple times for each of their divisions in the Central and and West Coast Basins.

In order to eliminate the variability in the number of customers and provide a more consistent count, we performed a review of our historical pumping table and identified all unique account numbers (aka Alpha Numbers) that had production greater than zero during each Fiscal Year. A revised summary of this count is provided above.

	2016		2007	
Customer	Water Pumped (AF)	Percentage of Total	Water Pumped (AF)	Percentage of Total
Long Beach, City of	32,645	15%	25,487	11%
Golden State Water Company	21,378	10%	29,655	13%
California Water Service Company	16,335	8%	13,884	6%
Downey, City of	13,239	6%	18,490	8%
Los Angeles Department of Water and Power	8,395	4%	13,358	6%
South Gate, City of	7,431	3%	10,107	4%
Tesoro Refining & Marketing Company	7,337	3%	860	0%
Lakewood, City of	7,087	3%	9,965	4%
Compton, City of	6,663	3%	6,000	3%
Cerritos, City of	6,353	3%	11,812	5%
Total	126,864	59%	139,618	60%
Total Water Consumed (Acre Feet)	214,489	100%	232,518	100%

Source: Water Replenishment District Accounting Department

Fiscal Year	Certificates of Participation	Total Debt	Total Per Capita	Total As a Share of Personal Income
2007	15,410,000	15,410,000	1.59	0.003849%
2008	15,100,000	15,100,000	1.55	0.003617%
2009	32,658,447	32,658,447	3.33	0.008319%
2010	32,175,300	32,175,300	3.27	0.007981%
2011	31,552,153	31,552,153	3.19	0.007496%
2012	101,632,500	101,632,500	10.20	0.023458%
2013	100,920,284	100,920,284	10.13	0.022784%
2014	100,148,068	100,148,068	10.00	0.021954%
2015	98,300,852	98,300,852	9.66	0.019656%
2016	171,569,874	171,569,874	16.70	0.033312%



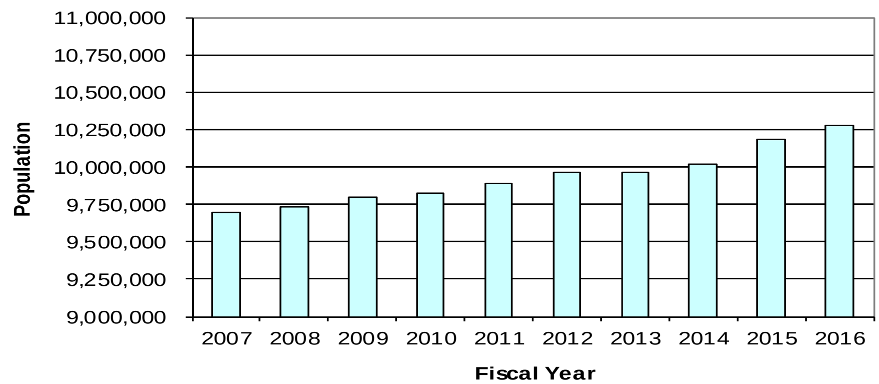
Source: Water Replenishment District Accounting Department

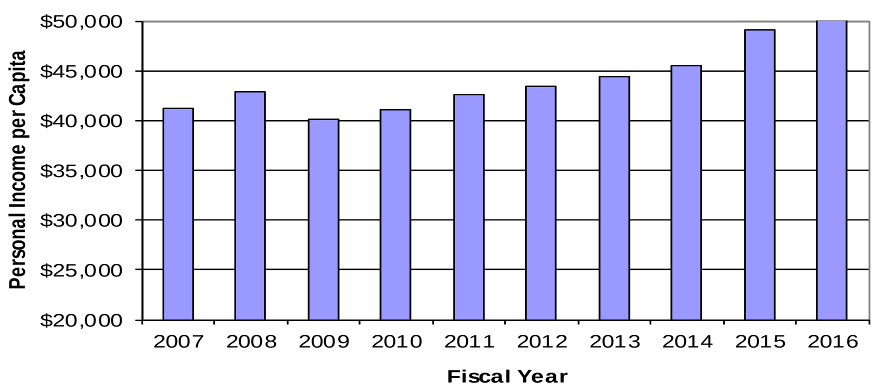
Fiscal Year	Net Revenues (2)	Operating Expenses (1)	Net Available Revenues	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage Ratio
2007	35,231,474	(39,817,101)	(4,585,627)	-	654,931	654,931	(3.35)
2008	39,990,766	(24,576,237)	15,414,529	310,000	647,827	957,827	(16.64)
2009	39,014,927	(28,362,636)	10,652,291	315,000	764,408	1,079,408	9.87
2010	44,840,245	(46,705,411)	(1,865,166)	500,000	1,642,081	2,142,081	(0.87)
2011	55,166,309	(52,788,111)	2,378,198	640,000	1,616,331	2,256,331	1.05
2012	45,814,299	(44,170,360)	1,643,939	695,000	3,648,519	4,343,519	0.38
2013	45,212,320	(38,868,302)	6,344,018	675,000	4,815,932	5,490,932	1.16
2014	64,298,529	(44,086,875)	20,211,654	735,000	4,788,544	5,523,544	3.66
2015	82,569,654	(69,991,319)	12,578,335	1,810,000	4,743,381	6,553,381	1.92
2016	63,495,725	(51,786,834)	11,708,891	1,655,000	4,118,895	5,773,895	2.03

Notes:
(1) Operating expenses exclude depreciation expense
(2) Net revenues is made up of total operating revenues, net nonoperating revenue (expense) and total capital contributions from the statements of revenue, expenses, and changes in net position.

Source: Water Replenishment District Accounting Department

Year	Unemployment Rate (1)	Population (2)	Personal Income (thousands of dollars) (2)	Personal Income per Capita (2)
2007	4.9%	9,700,359	400,366,343	41,273
2008	7.2%	9,735,147	417,454,378	42,881
2009	11.7%	9,797,400	392,579,855	40,111
2010	12.4%	9,826,773	403,144,483	41,025
2011	12.5%	9,889,056	420,913,463	42,564
2012	11.1%	9,962,563	433,261,902	43,489
2013	9.6%	9,962,789	442,935,636	44,459
2014	8.2%	10,017,068	456,177,277	45,540
2015	7.3%	10,181,140	500,117,959	49,122
2016	4.9%	10,274,040	515,037,625	50,130





Notes:
(1) Only County data is updated annually. Therefore, the District has chosen to use its data since the District believes that the County data is representative of the conditions and experience of the District.

Sources: California Department of Finance and CaliforniaLaborMarketInfo, Los Angeles Business Journal, FRED Economic Data - St. Louis Fed

(2) Per capita personal income was computed using Census Bureau midyear population estimates and Real Per Capita Income estimates from CalGovs Los Angeles County All state and local area dollar estimates are in current dollars (not adjusted for inflation).

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce, CalGov.com/Los Angeles County Economic Forecast

Largest Public Companies (1)

The Walt Disney Company
DirecTV Group
Health Net, Inc.
Edison International
Jacobs Engineering Group, Inc.
Farmers Insurance Exchange
Reliance Steel & Aluminum Company
Molina Healthcare, Inc
CBRE Group, Inc
AECOM Technology Corp.

(1) Ranked by 2015 sales volume
Source: Los Angeles Almananc

Largest Private Companies (2)

Platinum Equity, LLC
Capital Group of Companies, Inc.
Dole Food Company, Inc.
Consolidated Electrical Distributors, Inc.
Parsons Corporation
Forever 21 Inc.
The Wonderful Company (previously Roll Global LLC)
Newegg, Inc.
Guitar Center, Inc.

(2) Ranked by 2015 sales volume
S**ource:** Los Angeles Almanac

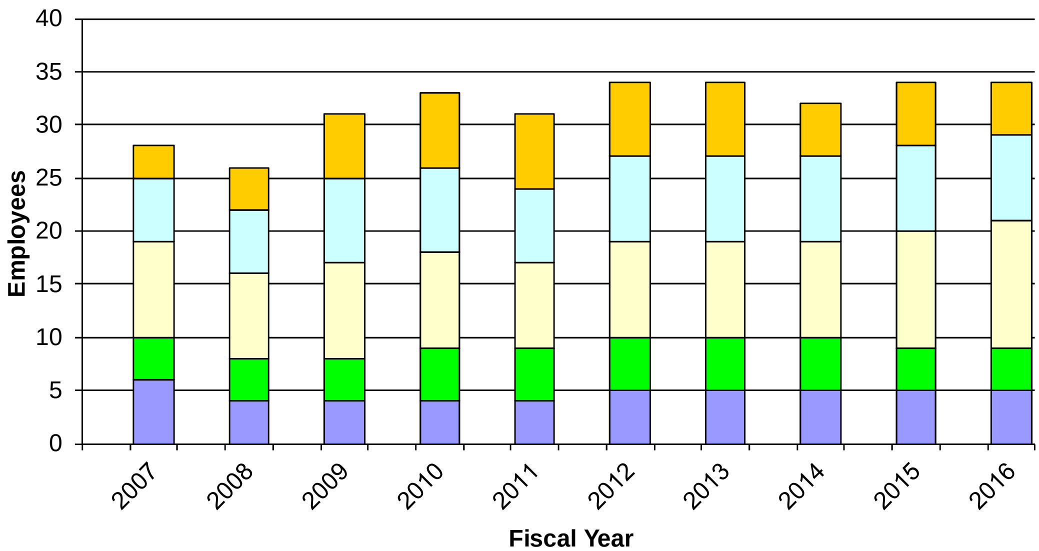
Largest Employers (3)

County of Los Angeles
Los Angeles Unified School District
City of Los Angeles (Including DWP)
University of California, Los Angeles
Federal Government
Kaiser Permanente
State of California (non-education)
Northrop Grumman Corp.
Target Corp.
Providence Health & Services
University of Southern California
Kroger Co. (Ralphs, Food 4 Less)
Bank of America
Long Beach Unified School District

(3) Ranked by 2014 number of employees in Los Angeles County
Source: California Employment Development Department,
the Los Angeles Business Journal, and Almanac research

Employees

Department	2007	2008	2009	2010	2011	2012	2013	2014	2015
Administration	6	4	4	4	4	5	5	5	5
Finance	4	4	4	5	5	5	5	5	4
Engineering	9	8	9	9	8	9	9	9	11
Hydrogeology	6	6	8	8	7	8	8	8	8
External Affairs	3	4	6	7	7	7	7	5	6
Total	28	26	31	33	31	34	34	32	34



Other Operating and Capacity Indicators

Fiscal Year	Number of Groundwater Pumps	Acre Feet Injected
2007	372	24,363
2008	367	26,287
2009	370	25,996
2010	366	28,400
2011	372	27,408
2012	373	19,023
2013	361	23,277
2014	365	30,075
2015	353	28,881
2016	357	25,667

Notes:

Number of Wells

In previous years, the count of the number of production wells was based on wells labeled as “Active” in our wells database table, regardless of whether they had production in the current Fiscal Year.

In order to provide a more accurate summary of active wells, we performed a review of the historical pumping table and identified all wells that had production greater than zero during each Fiscal Year. A summary of this count is provided above.

Sources: Water Replenishment District Engineering and Accounting Departments

Report of Independent Auditors on Internal Controls and Compliance

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Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Honorable Members of the Board of Directors
Water Replenishment District of Southern California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Replenishment District of Southern California (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2016

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vasquez & Company LLP

Los Angeles, California
December 21, 2016

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